

SINGLE AUDIT

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NOTES

CHAPTER 11: SINGLE AUDIT

DOCUMENTS ESTABLISHING REQUIREMENTS

The Office of Management and Budget establishes uniform audit requirements for non-federal entities, including state and local governments that administer federal awards, Uniform Guidance 2 CFR 200 Subpart F. The Act requires non-federal entities that expend a total amount of federal awards, whether received directly from federal awarding agencies or indirectly from pass-through entities, equal to or more than \$750,000 in any fiscal year, to have either a single audit or a program-specific audit, available from the OMB internet web site at https://www.whitehouse.gov/omb/circulars_default or from the Government Printing Office at the following address:

Government Printing Office
Superintendent of Documents
Washington, D.C. 20402-9325.

The *State Single Audit Guidelines* (Guidelines) issued by the Wisconsin Department of Administration (DOA) establishes standardized procedures and guidelines for the implementation of single audit requirements for non-federal entities. The *State Single Audit Guidelines* (SSAG) are found at <http://doa.wi.gov/Divisions/Budget-and-Finance/Financial-Reporting/State-Single-Audit-Guidelines>. The *Guidelines* require non-federal entities subject to the requirements of the Act to include selected state financial assistance programs in the scope of the single audit. These programs, and related compliance supplements, are identified in appendices to the *Guidelines*.

DETERMINING THE ENTITY(IES) TO BE AUDITED

The non-federal entity or government unit to whom a grant is awarded and with whom DOA contracts may be subject to an audit in accordance with the Uniform Guidance 2 CFR 200 (See “III. Determining the Type of Audit Required”). This government unit is responsible for submission of its single audit reporting package to DOA as described more fully below, whether or not the entity has sub-granted the award to another governmental unit.

In addition to the above, if the governmental unit to whom a grant is awarded and with whom DOA contracts passes some or all of the funds through to another general purpose unit of government or a special purpose unit of government such as a sanitary district, that unit of government may also be subject to a single audit in accordance with the Uniform Guidance (see “III. Determining the Type of Audit Required”). To determine whether the second general purpose unit of government, special purpose unit of government, or sub-grantee/sub-recipient must conduct an audit of its own or its auditing requirement may be fulfilled through the audit of the Department of Administration’s Grantee, review the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity”, or consult an independent CPA.

DETERMINING THE TYPE OF AUDIT REQUIRED

The federal law requires non-federal entities that “expend” a combined total of \$750,000 or more of federal funds in a year to have a single audit conducted for that year in accordance with the requirements of Uniform Guidance 2 CFR 200 Subpart F. The single audit should cover the operations of the entire local government or, at the option of the local government, the audit may include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered federal awards. Non-federal entities that expend \$750,000 or more on one federal program only in any fiscal year may elect to have a program-specific audit conducted in accordance with the Uniform Guidance. [Attachment 10-B: *Single Audit Statement (Audit Required)*]

Non-federal entities that expend less than \$750,000 in total federal awards in a year are exempt for that fiscal year from compliance with the audit requirements of the Uniform Guidance. The exemption does not, however, relieve a non-federal entity from compliance with any provision of a federal statute or regulation that requires the entity to maintain records concerning federal awards, or permits a federal agency, pass-through entity, or the Comptroller General access to such records. [Attachment 10-C: *Single Audit Statement (Audit Required)*]

AUDITEE RESPONSIBILITIES

Uniform Guidance 2 CFR 200 clearly identifies the responsibilities of the auditee (the local government) with respect to federal awards.

The auditee is required to:

- A. Identify in its accounts the federal awards received and expended. The identification should include the Catalog of Federal Domestic Assistance (CFDA) title and number, name of the federal agency, and name of the pass-through entity. The CFDA for the Small Cities CDBG State Program passed through the Department of Administration is 14.228, and the federal agency is the U.S. Department of Housing and Urban Development. Each similar source or cluster should be subtotaled.
- B. Maintain internal control over federal programs. To gain an understanding of the concepts of establishing effective internal control structure policies and procedures, consult the independent auditor or refer to the appendix of the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*.
- C. Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs. These requirements may be found in the award agreement, this handbook, and Uniform Guidance 2 CFR 200 *Compliance Supplement (Compliance Supplement)*. A copy of the *Compliance Supplement* is available from the OMB internet web site at the Government Printing Office or https://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015.

- D. Prepare appropriate financial statements, including the schedule of expenditures of federal awards.
- E. Arrange for and ensure that audits required by the Uniform Guidance are properly performed. (Attachment 11-A: *Choosing an External Auditor.*)

When procuring professional services the UGLG must follow Chapter 66 of the Wisconsin Statutes regarding procurement. In addition, the UGLG must comply with Uniform Guidance 2 CFR 200 because federal funds are being used to pay for the services.

In procuring audit services, the auditee must follow the Circular's procurement procedures, which accommodate Chapter 66 of Wisconsin Statutes and comply with OMB Circular A-102. Requests for proposals should clearly state the objective and scope of the audit. Factors to consider in evaluating proposals include:

- Responsiveness to the Request for Proposals (RFP);
 - Relevant experience in the performance of Single Audits;
 - Availability of staff with professional qualifications and technical abilities;
 - The result of external peer review; and
 - Price.
- F. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit and a corrective action plan.
 - G. Execute the Data Collection Form and submit it, together with the audit reporting package, when due. Audits must be completed and submitted within 30 days after the issuance of the auditor's reports to the auditee, but no later than nine months after the end of the audit period.

SINGLE AUDIT REPORTING PACKAGE

The required elements of a single audit reporting package are as follows:

- A. Financial statements of the non-federal entity, notes to the financial statements and auditor's opinion;
- B. Schedule of expenditures of federal and, if applicable, state awards, notes to the schedule, and auditor's opinion;
- C. Report on the internal control structure related to the financial statements and major programs;
- D. Report on compliance with laws, regulations, and provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements;
- E. Schedule of findings and questioned costs using a reference numbering system to facilitate audit follow-up. One option is to use an identifying prefix of the last two digits of the year under audit, then the sequence number of issues listed;
- F. Summary schedule of prior audit findings. The auditee may prepare a summary schedule that indicates that there were no reportable prior year findings; and
- G. Corrective action plan for all audit findings and recommendations or an explanation as to why an action plan was not necessary.

PROGRAM-SPECIFIC AUDIT REPORTS

The required elements of a program-specific audit, for eligible non-federal entities, are dependent on whether a program-specific audit guide is available from the Office of the Inspector General of the federal agency. If a program-specific audit guide is available, the auditor must follow the guide and Generally Accepted Government Auditing Standards. In the absence of a program-specific audit guide, the following is required:

- A. Financial statements of the federal program, notes to the financial statements and auditor's opinion;
- B. Report on internal control related to the federal programs;
- C. Report on compliance with laws, regulations and provisions of contracts or grant agreements;
- D. Schedule of findings and questioned costs for the federal program that includes a summary of the auditor's results and findings and questioned costs;
- E. Summary schedule of prior audit findings; and
- F. Corrective action plan for all audit findings or explanation as to why one was not necessary.

SUBMISSION TO CLEARINGHOUSE

All auditees must submit to the federal clearinghouse the data collection form and one copy of the reporting package described above and the Data Collection Form (Form SF-SAC) to the Federal Audit Clearinghouse (FAC). The auditee must electronically submit to the FAC at <http://harvester.census.gov/sac/>.

SUBMISSION TO PASS-THROUGH ENTITIES

Sub-recipients should review section 1.9 of DOA's Single Audit Compliance Supplement (<http://www.doa.state.wi.us/Divisions/Budget-and-Finance/Financial-Reporting/State-Controllers-Office-State-Single-Audit-Guidelines/State-Controllers-Office-State-Single-Audit-Guidelines-2014/>) for submission requirements.

REPORT RETENTION REQUIREMENTS

One copy of the data collection form and one copy of the complete reporting package must be kept on file for three (3) years from the date of submission to the federal clearinghouse.

AUDIT COSTS

The costs of audits made in accordance with the provisions of 2 CFR 200 Subpart E are allowable charges to the CDBG program unless the non-federal entity expended less than \$750,000 of federal awards and is, therefore, exempted by the Act from having an audit conducted. In accordance with 2 CFR 200 Subpart E, "Special Considerations for States, Local Governments and Indian Tribes," the percentage of costs charged to the CDBG program for a single audit shall not exceed the percentage derived by dividing federal funds expended by total funds expended by the recipient or sub-recipient (including program matching funds) during the fiscal year.

QUALITY CONTROL REVIEWS

The *Guidelines* require state cognizant agencies to conduct quality control reviews (QCRs) of the work of independent auditors performing single audits to ascertain they have adhered to required auditing standards and guidelines, and the scope of the audit was sufficient to provide a reasonable chance of detecting material errors, deficiencies, or irregularities, if any. Annually, a minimum number of single audits are randomly selected by DOA for quality control review. DOA may also judgmentally select audits for quality control review based on the results of a desk review.

The chief elected official of a non-federal entity selected for QCR will be asked to authorize its independent auditor to allow the DOA Auditor to review audit work papers supporting the audit. Written results of the review are provided to the non-federal entity, independent auditor, and DOA within two (2) weeks of completion of the QCR. The non-federal entity is expected to work with its independent auditor to correct deficiencies, if any, noted during the QCR.

ATTACHMENTS

Attachments for this chapter are listed below.

ATTACHMENT 11-A: CHOOSING AN EXTERNAL AUDITOR

ATTACHMENT 11-B: SINGLE AUDIT STATEMENT (AUDIT REQUIRED)

ATTACHMENT 11-C: SINGLE AUDIT STATEMENT (AUDIT NOT REQUIRED)

ATTACHMENT 11-A: CHOOSING AN EXTERNAL AUDITOR

Condensed from the Mid-America Audit Forum Guide

http://www.auditforum.org/mid%20america/SELECTING_AN_EXTERNAL_AUDITOR_FINAL_5_2007.pdf

INTRODUCTION

Selecting a qualified auditor can be a very subjective process involving several factors. Government Auditing Standards issued by the General Accounting Office (GAO), noted that a sound procurement practice when contracting for audit services should, in addition to price, consider other factors including:

- responsiveness of the bidder to the request for proposal;
- past governmental experience of the bidder;
- availability of bidder staff with professional qualifications, specialized training and technical abilities in governmental auditing; and
- results of the bidder's external quality control reviews.

An American Institute of Certified Public Accountants (AICPA) task force report discusses the importance of an auditor's experience and degree of specialization. The report noted that an auditor who spent less than 25 percent of their time on federal award audits was three times more likely to obtain a substandard assessment of audit quality as a result of external peer review.

To comply with Uniform Guidance 2 CFR 200, which governs audits of expenditures of federal funds, a government entity must consider audit quality factors in addition to the price of the audit when choosing an external auditor.

Public entities should select auditors only after considering five basic steps for an effective audit procurement process, as follows:

- Step 1: Planning (determining what needs to be done and when);
- Step 2: Communicating Audit Requirements and Soliciting Proposals (writing a clear and direct solicitation document and disseminating it widely);
- Step 3: Selecting a Qualified Auditor (authorizing a committee of knowledgeable persons to evaluate the ability of prospective auditors to effectively carry out the audit);
- Step 4: Written Agreement: Documenting Expectations (documenting the expectations of both the entity and the auditor); and
- Step 5: Monitoring the Audit: Ensuring a Quality Audit (periodically reviewing the progress of that performance).

Step 1: Planning

Planning to procure a quality audit requires time and attention. But the resources an entity spends on planning are likely to be rewarded by a smoother, timelier, higher quality and often, less expensive audit.

Matters to Consider:

- Defining the entity to be audited;
- Delineating the scope of the financial audit;
- Determining the specific audit requirements;
- Deciding on the appropriate auditing standards;
- Identifying the attributes necessary in an auditor;
- Deciding how to evaluate prospective auditors;
- Reviewing legal requirements; and
- Establishing a work schedule.

Step 2: Communicating Audit Requirements and Soliciting Proposals

Full and open competition is basic to government procurement. Encouraging as many qualified auditors as possible to submit proposals for auditing the organization increases the likelihood that it will receive a quality audit at a fair price. It is imperative to clearly communicate audit needs to potential proposers. This is critical, because auditors who do not clearly understand desired services, might not respond, or they may base their response on invalid requirements.

There are many ways to solicit bids for an audit, but the most reliable and suggested method is a written request for proposal (RFP). RFPs should be clearly written, set forth all terms, conditions, and evaluation criteria as well as the scope of the work required, and be sufficiently well distributed and publicized to encourage full and open competition.

What to include in the RFP?

The prime consideration in preparing the RFP is that it contains enough information to provide auditors with a common basis by which to prepare proposals that address all audit needs. It is also important, however, that consulting takes place with the purchasing office and/or legal counsel to ensure that the RFP conforms with the laws, regulations, and grant terms applicable to the organization.

'Audit fees' typically accounted for 25-30 percent of the evaluation ranking, while the auditors' qualifications, including the articulation of their ability to perform the audit, accounted for 70-75 percent of the evaluation ranking.

At a minimum, the RFP should contain the following:

- The name and address of organization;
- The entity to be audited, scope of services to be provided, and specific reports, etc., to be delivered;
- The period to be audited (with explanation if the RFP calls for a multi-year procurement);
- The name and telephone number of a contact person at the organization;
- The format in which proposals will be prepared;

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- The address to which proposals should be delivered or sent;
- The date and time proposals are due;
- The number of proposal copies to be submitted;
- The criteria to be used in evaluating the bid and their relative importance to each other;
- The method and timing of payment; and
- Any other important points, including the consequences if due dates are missed or work does not meet audit standards.

Chances of receiving high quality proposals will be enhanced if the organization:

- Explains the work that the organization performs;
- Explains what is to be audited, e.g., general-purpose financial statements, specific funds or both;
- Describes (in some detail) the organization's accounting system, administrative controls, records, and procedures. The RFP should identify the availability of proposer access to staff and records upon request;
- Identifies the appropriate auditing standards;
- Informs prospective proposers if data from prior years (audit reports, management letters, etc.) will be available, whether major audit findings remain open from prior years, and whether an audits of sub-recipients are required;
- Notifies prospective proposers of requirements for work paper retention and making the work papers available to the entity as well as governmental auditors if they request them;
- Describes expected audit products, the required format of the audit report, and the format of any required progress reports;
- Explains assistance that the organization will offer, such as staff support to assist the auditor (which could materially reduce audit costs); and
- Outlines the expected schedule of work (completing fieldwork, issuing reports, etc).

A well-prepared RFP elicits certain information from prospective auditors. Itasks prospective auditors to state:

- How they would conduct the audit and, if it were a multi-year contract, how they would approach the work efforts of the subsequent year(s);
- Their qualifications, those of their local office, if applicable, and those of the proposed audit staff, including their prior government auditing experience;
- Whether they meet appropriate state licensing requirements in the state where the audit will be performed;
- Their policies on notification of changes in key personnel;
- Whether the proposed staff have received continuing professional education in governmental accounting and auditing during the last two (2) years;

- Whether they are independent, as defined by applicable auditing standards;
- That they have not been suspended or debarred from performing government audits, or from other government activity;
- Whether they have received a positive peer review within the last three (3) years;
- Whether they have been the object of any disciplinary action during the past three (3) years;
- Whether they contract with small businesses, minority-owned firms, women's business enterprises to assist in performing audit work; and
- Their audit fees.

Step 3: Selecting a Qualified Auditor

Once the due date for proposals has passed, begin evaluating the proposers' qualifications. The technical evaluation is important for two reasons:

1. It provides a systematic framework for selecting an auditor on the basis of the entity's established RFP criteria, and
2. It documents that the auditor was selected fairly.

Comparing the entity's requirements with the auditor's plans, skills, experience, commitment, and understanding of the audit requirements before reviewing their price proposals will aid in the selection of the auditor who can provide the best audit at the fairest price.

Evaluate Qualifications Separately From Price

We suggest separate evaluations of:

1. Office qualifications,
2. Staff qualifications, and
3. Audit fees.

The office and staff qualifications address the auditor's technical ability to perform the audit. Although the price for the work to be performed is a factor in the selection of a qualified auditor, the organization will be more likely to get a high quality audit at a fair price if both price and technical ability are taken into account in selecting the successful proposer.

Screen Bidders For Minimum Standards

As a first step, the organization should require all proposers to meet certain minimum standards before evaluating either the technical qualifications or the price proposals. This can spare the entity the needless and time-consuming technical evaluation of prospective auditors that do not meet requirements. The laws governing the entity, its general internal policies, and its policies regarding specific audit engagements can determine these minimum standards. The minimum standards should include those prospective auditors which:

- Meet state licensing requirements or other legal requirements enabling them to perform the audit;
- Meet the applicable independence standard;
- Meet appropriate qualifications as an audit team;

- Have a record of responsible work, and comply with applicable requirements for peer review and continuing professional education.

Step 4: Writing the Agreement: Documenting Expectations

What to Include in a Written Agreement

When an RFP has been used, the written agreement should incorporate by reference, the terms of the RFP and those of the successful proposer's last proposal. The agreement should be signed by the entity and the auditors and should clearly specify the:

- Audit scope, objective, and purpose;
- Deadlines for work to be performed;
- Audit costs;
- Report format;
- Type and timing of support to be provided to the auditor by the entity; and
- Professional auditing standards to be followed in performing the audit.

Furthermore, the agreement should make the following points about the auditor/entity relationship, changes in the kind or amount of work required, and access to and ownership of audit products.

- The relationship of the auditor to the entity is that of an independent contractor.
- At any time, the entity may, by written notice, make changes in or additions to work or services within the general scope of the agreement. If such changes are made, an equitable adjustment will be made in the cost of the audit using the rates specified in the agreement.
- If the auditor believes that a change in or addition to work is beyond the general scope of the agreement, it must notify the entity in writing within a specified time and before beginning that work. The agreement should indicate where the final administrative authority rests in deciding disputes.
- The work papers prepared by the auditor during the audit are its own property. These documents should be retained for a period to be designated in this agreement. Copies of these work papers (if requested) are to be made available to the entity and governmental auditors or regulators.

All reports rendered to the entity by the auditor are the exclusive property of the entity and subject to its use and control, according to applicable laws and regulations.

Step 5: Monitoring the Audit: Ensuring a Quality Audit

Monitoring the progress of the audit is the most effective way to ensure that the organization receives both the type and quality of audit services specified in the written agreement. Key elements to ensure proper monitoring include:

- While auditors are responsible for ensuring the quality of the audit, monitoring work performed as a quality assurance measure is critical.
- Monitoring can be accomplished by requiring periodic progress reports, as well as by holding regular meetings to discuss issues that need to be resolved. Furthermore, meeting after the completion of the audit to discuss the draft report can help ensure a clear understanding of the report and its findings.

ATTACHMENT 11-B: SINGLE AUDIT STATEMENT (AUDIT REQUIRED)

PLACE THE FOLLOWING ON THE UGLG'S LETTERHEAD

SINGLE AUDIT STATEMENT (AUDIT REQUIRED)

DEHCR Project Representative
Bureau of Community Development
Division of Energy, Housing and Community Resources
Wisconsin Department of Administration
P.O. Box 7970
Madison, WI 53707-7970

I hereby attest, under penalties of perjury, that during the calendar year ending, December 31,
20__, _____ (UGLG name) has expended **more than \$750,000**
in total federal funds and will comply with the federal Single Audit Act and the requirements of
Uniform Guidance 2 CFR 200.

(Signature of Chief Elected Official)

(Typed Name)

(Typed Title)

ATTACHMENT 11-C: SINGLE AUDIT STATEMENT (AUDIT NOT REQUIRED)

PLACE THE FOLLOWING ON THE UGLG'S LETTERHEAD

SINGLE AUDIT STATEMENT (AUDIT NOT REQUIRED)

DEHCR Project Representative
Bureau of Community Development
Division of Energy, Housing and Community Resources
Wisconsin Department of Administration
P.O. Box 7970
Madison, WI 53707-7970

I hereby attest, under penalties of perjury, that during the calendar year ending, December 31,
20__, _____ (UGLG name):

1. Has expended **less than \$750,000** in total federal funds and, therefore, is not required to submit an audit which meets the Federal Single Audit Act and the requirements of Uniform Guidance 2 CFR 200.
2. Has expended the following amount(s) of federal funds, including funds received from the Wisconsin Department of Administration, Division of Energy, Housing and Community Resources or any other source.

<u>CFDA #*</u>	<u>GRANT CONTRACT #</u>	<u>SOURCE AGENCY</u>	<u>AMOUNT EXPENDED</u>
_____	_____	_____	_____
_____	_____	_____	_____

(Signature of Chief Elected Official)

(Typed Name)

(Typed Title)

**(The CFDA # for all CDBG projects is 14.228.)*

ADDITIONAL NOTES: (optional)