

The webcast will start at 1:00 p.m. Eastern

- Visit capincrouse.com/single-audit-webcast to access these materials from today's webcast:
 - Handout
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Preparing for Your Single Audit

What to Know and How to Prepare

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3

Single Audit – What is it?

- Audit of financial statements *and* Audit of Compliance
- All general provisions are in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

4

Single Audit – What is it? (continued)

- [Uniform Guidance Codification](#) is available online
- This describes the process from application, awards, processing, and reporting on federal funding
- The Uniform Guidance mandates that there is \$750,000 of expenses of federal funding in the period under audit to require a Single Audit. Single audits are not required for total federal expenses below \$750,000 in the period.
 - The definition of “federal funding” is met when the original funding source was federal dollars, regardless of the number of entities the funding has been passed through

5

Compliance Supplement – What is it?

- Publication from the Office of Management and Budget (OMB)
- Defines expectations for auditors on what is required to test in federal programs
- Published annually, between April and August
- Available online (2023 not available yet)
- [2022 Compliance Supplement](#) (pages 1781 – 1855)
- Effective for the fiscal year beginning after June 30
 - May 31 year-ends will follow the prior-year Compliance Supplement

6

How do I know what will be tested?

- Auditor is required to determine major program(s) first
- Auditor is required to follow the Compliance Supplement for those programs
 - Direct and material and subject to audit
- Other requirements come from the programs themselves or other published information
 - Higher Education Emergency Relief Fund (HEERF) FAQs
 - Grant agreements
 - Memorandum of understanding (MOU) sent to all participating organizations

7

So... What's a major program?

- These are the programs for which the auditor is testing the compliance and controls
- Risk-based approach with set criteria
 - Four-step process to determine
 - Requires a complete and accurate Schedule of Expenditures of Federal Awards (SEFA) to begin
 - Changes in the SEFA require re-evaluation of major program determination

8

So... What's a major program? (continued)

- Work required for a major program on the audit side:
 - Obtain an understanding of the process and controls
 - Determine which controls provide assurance that the federal funds were spent in accordance with applicable regulations and cost principles
 - Meet all required procedures from the Compliance Supplement
 - Select a sample of those funds to tie back to documentation
 - If exceptions, extrapolate or prove as isolated
 - Report on each program

9

SEFA – What is it?

- Schedule of Expenditures of Federal Awards
- All federal funding expended during the fiscal year
- This is on an accrual basis
- This is cash and non-cash
- This is all funding that *originated* from federal sources
- Loans with continuing compliance requirements

10

SEFA – What's required?

- Program Name – example: Federal Direct Student Loans
- ALN Number – Assistance Listing Number
- Agreement Number (if applicable)
- Pass Through Entity Identifying Number (if applicable)
- Passed Through to Subrecipients (if applicable)
- Federal Expenditures (accrual basis)
- Clusters of federal programs are defined in the Compliance Supplement

11

SEFA – Revolving Loan Programs

- Programs such as Perkins, Nursing Loan Program, and Nursing Faculty Loan Program are considered revolving loan programs
- SEFA balance is the prior-year ending balance plus any disbursements in the current year plus any administrative cost allowance claimed
- Footnote disclosure will state what the ending balance is at the reporting date

12

SEFA – Is it complete?

- Double-check usaspending.gov
- Award search – Advanced Search

Spending Explorer **Award Search** ▾ Profiles ▾ Download ▾ Resources ▾

- Look at both the prime and sub-recipient toggle at the top in the search

Prime Awards Sub-Awards

- There has been so much funding that originated in federal stimulus bills that more shows up here than before
- Donated surplus property (LEPP)

13

SEFA – Reconciliation Footnote

- The goal of the SEFA reconciliation footnote is to explain to a reader which pieces of the SEFA are shown in revenue/ contributions and which line item they flow into on the overall financial statements
- The next slide will discuss some common reconciliation items

14

SEFA Reconciliation – Common Items

- Federal Grants
 - Direct Loans and Pell are awarded to the student (pass-through)
 - Federal Work-Study (FSW) and Federal Supplemental Educational Opportunity Grants (FSEOG) are awarded to the school (variance power = income) – these fall under the conditional contribution guidance
 - Perkins – revolving loan program with continuing compliance requirements
 - Research and other grants – awarded to school (variance power = income) – these frequently fall under the conditional contribution guidance
 - Administrative cost allowances are earned by school = income
 - Employee Retention Credit = not subject to Uniform Guidance but reconciling item

15

SEFA Reconciliation – What to Include or Exclude (continued)

- State Grants
 - If awarded to school and school applies to students, these would fall under the conditional contribution guidance and are income
- Other Grants
 - Consider rev rec for foundation grants and other grants received (often grouped with federal grants on Statement of Activities, may need to be on SEFA)

16

SEFA Reconciliation – What to Include or Exclude (continued)

- Other grants that are not federal or state but are grouped in the same line on the Statement of Activities as the federal and state grants
 - Based on materiality and users of the financial statements, may choose to separate these lines
- Materiality applies
 - “Other reconciling items” may be acceptable for small differences
 - Some grants may not be material for financial statements but are material to the SEFA or to major program determination

17

SEFA Reconciliation – What’s Required

- Total of expenditures of federal awards agrees to SEFA
- Back out all pass-through activity and revolving loan requirements
- Add in all administrative cost allowances and state grants
- Back out/add in remaining reconciling items
- Total agrees to the amount in the Statement of Activities
- Name of the line item agrees to the Statement of Activities (example federal and state grants)
- If included in contributions, then you would say federal grants included in contributions per Statement of Activities

18

SEFA Reconciliation Importance

- Determine if everything has been recorded as income that should be
- Determine if there are other grants that may be federal and should be included on the SEFA
- Determine whether donor restrictions apply (most do from federal funding) and are appropriately classified on the Statement of Activities
- Determine if there are adjustments required for proper cutoff
 - Common examples include receivables for administrative cost allowance or funds not drawn in cash but disbursed to students
 - HEERF funds drawn but not expended should be “refundable government grants” because they follow conditional contribution guidance

19

Conditional Contributions

- HEERF, FWS, and FSEOG all fall under the conditional contribution guidance, meaning amounts allocated but not yet earned are required to be disclosed as conditional (if material)
- Government research grants are typically conditional contributions as well, meaning the contract amount minus what has been expended is required to be disclosed as conditional (if material)
- State grants, if awarded to the school, are also conditional contributions, meaning the allocated amount minus what is expenses is required to be disclosed as conditional (if material)
- There is often a budgeting process for the remaining amounts to spend on these grants, and this can be a great starting point to collect the information for the footnote disclosure

20

Conditional Contributions Disclosure

- While one may not be material individually, need to aggregate together to determine if material to disclose
- FWS, FSEOG, and state grants may all be awarded for the upcoming year

21

Conditional Contribution Example Disclosure

GOVERNMENT GRANTS RECEIVABLE

Government grants receivable are primarily amounts due from grant agreements. Pursuant to the communication between these partner organizations and the Organization, the Organization believes that 100% of receivables will be collected. Therefore, no allowance for doubtful accounts has been established.

The Organization has remaining government grants that will be recognized as revenue as the conditions are met. Under ASU 2018-08, these are accounted for as conditional contributions. The remaining amounts are anticipated through the fiscal year ending September 30, 2024, for approximately \$2,500,000.

22

SEFA – Why is it so important?

- Determines whether a Single Audit is required
- Basis for major program determination
- Government collects data through the data collection form on expenses

23

Pre-Award Considerations

- Complexity of processing and reporting on the grant
- Cash flow impact
- Potential cost-share requirements
- Mission alignment
- Administrative overhead of the grant
- Audit costs if total of all federal funds is over \$750,000

24

Pre-Award Considerations (continued)

- Conflict of interest policy
- Procurement policy
- Setting up a Unique Entity Identifier on sam.gov
- Process and methodology for time and effort reporting with payroll and benefits (don't double-dip)
- Policy and procedure manual before accepting an award

25

Accepting the Award

- Create a summary sheet or checklist
- Gather data for SEFA (ALN, granting agency, etc.)
- Revenue recognition considerations
- Primary contact for questions
- Checklist for reporting requirements (frequency and items to report)

26

Processing the Award

- Review is the best internal control!
- Retain documentation of decisions (centralized, organized structure)
 - Staffing changes
 - How could someone find the information if I'm not here?
- Establish process for communication when noncompliance is identified
- Protect Personally Identifiable Information (PII)
- Reinforce a culture of compliance across the organization

27

Procurement (Section 200.317)

- How you are allowed to purchase goods with federal dollars
- Retain documentation of decision-making process (not just winning bid)
- Based on threshold of purchase, different methods are required
- Micro-purchase threshold for most higher education institutions and nonprofits is \$10,000
- Best off to align A/P processes with federal guidelines
- Internal processes can be more strict — but not less strict

28

Reporting on the Award

- Most have a minimum of annual, but often more frequently
- Some reporting drives when revenue is recognized
- Granting agency may provide specifics
- Ensure that where information is obtained from stays with the report
- Establish a consistent naming convention
 - Staffing changes
 - How can someone find the information quickly if I'm not here?
 - Not documented = not done to government

29

Financial Aid Specifics – Clean Up Reports

Here are some simple procedures that can be performed to help identify award issues before the end of the financial aid year:

1. Create a process to identify subsidized loan awards that exceed the student's grade level.
 - Develop a report that helps identify students who have received a subsidized loan, along with their total credits earned.
 - Run and review this report prior to the first disbursement of the award year so that award revisions can be sent to the student before disbursement.
2. Run a report of all students with federal aid whose Institutional Student Information Record (ISIR) is selected for verification and indicate whether they have been verified. If a student shows up as not verified, research and document the reason why.

30

Financial Aid Specifics – Clean Up Reports

(continued)

3. Develop a report to identify students who have received awards that are over-need or over-budget (cost of attendance (COA)).
 - It is important to determine the cause of the overaward.
 - This report can also include data that helps you identify students whose total awards exceed their COA.

Check out our article on “Quick, Easy Wins to Help Your Institution Prevent Title IV Compliance Findings” at capincrouse.com/title-iv-compliance.

31

Financial Aid Specifics – Clean Up Reports

(continued)

4. Look for students who had aid offered that exceeded their budget or COA.
 - Regardless of the reason, it's important to identify this before the aid is disbursed. Review the budget to see if there was a change that would allow the higher offered amount. If not, the aid awarded must be reduced. If it was already disbursed, it must be returned. Reviewing this report before disbursing aid would prevent this from happening.
 - Remember that if the budget is adjusted, it may be considered a professional judgment and should be documented as such.

32

Financial Aid Specifics – Clean Up Reports

(continued)

5. Monitor the level of Federal Work-Study paid to see if it is greater than the level offered.
 - Reviewing this report each month will help promptly identify students who have exceeded their need by \$300.
 - This will allow your institution to redirect the student payroll from FWS into another institutional account so that all future earnings are recorded in the correct account.
 - That will prevent having to make correcting journal entries at year-end, when you are busy closing out the year.

These actions do not have to be time-consuming or expensive. And they can be done by someone in an existing financial aid role.

33

Financial Aid Specifics – Clean Up Reports

(continued)

- Other actions your institution can take to help prevent compliance findings:
 - Request a list of withdrawals from the registrar a couple of times each semester. Use the list to double-check that all withdrawals have been processed properly, with any needed R2T4 calculations and subsequent returns processed within the time limits.

(Also, a member of your financial aid department with the appropriate level of experience should periodically review modular students' R2T4 calculations and returns.)

34

Financial Aid Specifics – Clean Up Reports

(continued)

- Other actions your institution can take to help prevent compliance findings (continued):
 - Maintain documentation that supports actions taken such as:
 - Satisfactory academic progress
 - Reconciliations (Pell and FDL)
 - Data accumulated for the FISAP reporting
 - Support for any correction such as a R2T4, etc.

It's important to keep an audit trail of the compliance requirements at the point you completed them.

35

Financial Aid Specifics – Clean Up Reports

(continued)

- Other actions your institution can take to help prevent compliance findings (continued):
 - Perform a monthly reconciliation on any Pell or Federal Direct Loan (FDL) activity. Reconciliations must compare the student's system-disbursed amount to what the Common Origination and Disbursement (COD) detail report reflects for each student disbursement, not just the totals disbursed for each loan type.
 - Be proactive. If you encounter an error, don't assume that it's an isolated incident. Instead, look for similar issues and verify that no other students have the same overaward or compliance error.

36

Financial Aid Specifics – Reconciliation Reports

- Conduct a student-by-student reconciliation between all three systems (student accounts, student information system (SIS), and COD) in the months that funds are disbursed.
 - It's critical to keep supporting documentation, since the reconciliations are cumulative.
- Inaccurate Pell reporting could cause a student to exceed his or her lifetime limit. Inaccurate FDL reporting can impact a student's interest accumulating period based on the dates of the loan disbursement. Timely and accurate reconciliations of the Pell and FDL amounts can prevent both of these situations.

37

Financial Aid Specifics – Reconciliation Reports

(continued)

- The U.S. Department of Education Federal Student Aid office has provided updated information to assist higher education institutions with reconciling the [Pell Grant Program](#) and the [FDL Program](#).
- This information, which includes answers to common questions, applies to institutions' financial aid and business offices.

38

Full Compliance Required by Organization

- When accepting federal funds, the organization agrees to comply with *all* compliance requirements and grant requirements
- Auditors only test a portion
 - Example: GLBA

39

Uniform Guidance Report Structure

- Table of Contents
- Opinion agrees with financial statement (FS) opinion
- FS and notes
- Supplemental Opinion (SEFA and FRSS)
- SEFA and notes
- Government Auditing Standards (GAS) opinion (any significant deficiencies (SD)/material weaknesses (MW) of FS are reported here)
- Compliance Opinion
- Schedule of Findings and Questioned Costs
- Financial Responsibility Supplemental Schedule (FRSS) (only if SFA)
- Summary Schedule of Prior Audit Findings
- Corrective Action Plan (if required)

40

Uniform Guidance Report Timeline

- Uniform Guidance side completes the Single Audit report after the financial statements have the following:
 - Final FS opinion
 - Final SOA and notes to tie-out SEFA and loans
 - Final FS page numbers
 - Final determination on MW or SD for comment letter
 - FRSS
- Then the Uniform Guidance report draft is finished and sent to quality control for review

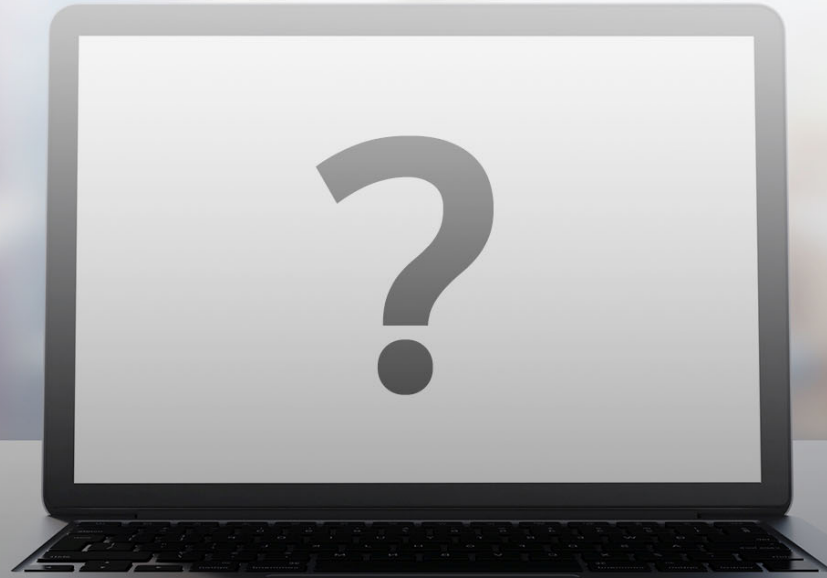
41

Other Department of Education Tidbits

- Error rates over 10% in the auditor sample will likely require a full file review by the client
- The Graham-Leach-Bliley Act (GLBA) requires a risk assessment, and updated regulations go into effect June 9, 2023
- Late returns of federal funds will require the school to post a letter of credit, typically 25% of the amount of returns that year (FN disclosure in FS)
- There are no more extensions for COVID-19, so all reports are due to the Clearinghouse nine months after fiscal year-end
- eZ-Audit is NOT the same as Clearinghouse. We start Clearinghouse; institutions are required to do the eZ-Audit submission.
- Final Audit Determination letters are generated after the eZ-Audit submission

42

Questions?



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