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AUDITCON

A HIGHER EDUCATION SUMMIT

ACUA
ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS



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Single Audit Landscape: Compliance Trends and Best Practices



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Agenda & Objectives

- Single Audit & Uniform Guidance
- Schedule of Expenditures of Federal Awards (SEFA)
- Compliance Supplement
- Federal Audit Clearinghouse (FAC) Data Trends
- Internal Controls: Single Audit Application
- Best Practices for Navigating the Single Audit



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Single Audit & Uniform Guidance



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Single Audit

- The Single Audit, Subpart F of OMB Uniform Guidance, requires entities that receive Federal assistance totaling \$750,000 or more during the non-Federal entity's fiscal year to have an annual audit
 - Audits must be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS)
 - As part of the Single Audit, auditees must prepare a supplementary schedule to their financial statements known as a **Schedule of Expenditures of Federal Awards (SEFA)**
 - Audit results must be submitted to the Federal Audit Clearinghouse (FAC)



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Single Audit

- Audit Objectives
 - Financial Statements: determine whether the financial statements of the auditee are **presented fairly in all material respects** and in accordance with generally accepted accounting principles (GAAP)
 - Internal Control: obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a **low assessed level of controls risk** of noncompliance for **major programs**
 - Compliance: determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of the Federal award that may have a **direct and material effect** on each of its **major programs**
 - Follow-Up: perform procedures to assess the **reasonableness** of the actions take to address any prior year audit findings



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Major Program Determination

1

Identify larger (e.g., Type A) programs

2

Identify low-risk Type A

3

Identify high-risk Type B

4

Major Program = Type A not low risk + Type B high risk + coverage requirement



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Type A Program Criteria

Total Federal Awards Expended	Type A Threshold
$\geq \$750,000$ and $\leq \$25$ million	\$750,000
$> \$25$ million but $\leq \$100$ million	Total federal awards expended times .03
$> \$100$ million but $\leq \$1$ billion	\$3 million
$> \$1$ billion but $\leq \$10$ billion	Total federal awards expended times .003
$> \$10$ billion but $\leq \$20$ billion	\$30 million
$> \$20$ billion	Total federal awards expended times .0015



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Percent of Coverage Rule

- **High-Risk Auditees:** recipient which has a high risk of not complying with federal laws and regulations requiring the auditor to audit at least 40% of all federal assistance received during the year
- **Low-Risk Auditees:** recipient which has a low risk of not complying with federal laws and regulations, requiring the auditor to audit no more than 20% of all federal assistance received during the year



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Single Audit: Report Submission

- Federal Audit Clearinghouse = repository of record
 - Dates back to 1997
- Data Collection Form (DCF)
 - Essentially, line by line of the SEFA with references to any audit findings and other elements of the reporting package

- Reporting Package

- Financial Statements
- SEFA
- Auditor's Report
- Corrective Action Plan
- Summary Schedule of Prior Audit Findings

Opinion on Financial Statements
Report on Internal Control
Report on Compliance for Each Major Program
Schedule of Findings and Questioned Costs



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Type A Program Criteria

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes none reported

Noncompliance material to the financial statements noted? ___ yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___x_ yes no

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various 84.425E and 84.425F	Student Financial Assistance Cluster COVID-19 - Education Stabilization Fund – Student Portion and Institutional Portion
93.498	COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
93.914	HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)
Dollar threshold used to distinguish between type A and type B programs:	\$3,890,894 \$1.3B * .003 = \$3.9M
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

Section II – Financial Statement Findings

Finding 2022-001: Revision of prior period consolidated financial statements (Significant Deficiency)

Section III – Federal Award Findings and Questioned Costs

Finding 2022-002: Reporting with the Health Resources & Services Administration (HRSA) Provider Relief Fund Portal

Finding 2022-003: Notifications of Disbursements to Students Sent Prior to 30 Days before Crediting a Student’s Account



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SEFA



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Uniform Guidance on SEFA

- The SEFA is used by the external auditors to determine major programs (e.g., audit scope).
 - The SEFA reports total amounts expended during the fiscal year. Amounts passed through to sub-recipients are also quantified and reported.
 - Expenditures are reported by **CLUSTER** (e.g., program), with a subtotal amount for each cluster, and then by the Agency/Sponsor and the Assistance Listing Number (ALN).
 - More detailed award information is required for awards received as a pass-through entity.



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SEFA Data Elements

- The following award elements are necessary to prepare the SEFA:

- Type of award (grant or contract)
- Reimbursement basis (cost or fixed)
- Name of direct sponsor – federal funding agency or pass-through entity as appropriate
- Assistance listing number (e.g., CFDA) & associated federal program name
- Applicable cluster assignment for the award
- For pass-through awards, award ID assigned by the sponsor
- Total federal expenses
- Amounts passed through to subrecipients

Included in the SEFA:

- Cost-reimbursable and fixed price grants and cooperative agreements
- Cost-based contracts
- Direct federal appropriations
- Disbursements financial aid loans to students
- Federal non-cash assistance such as property

Excluded from the SEFA:

- Fixed price contracts
- Federal revenue from sales of goods and services
- Medicare and Medicaid payments for patient services



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PEER SEFA

RESEARCH & DEVELOPMENT CLUSTER

DIRECT AWARDS

Department of Agriculture

National Institute of Food and Agriculture

Total Department of Agriculture

ALN

10.310

Current Year
Expenditures

\$ 59,328

59,328

Pass-Through Funds
to Sub recipients

\$ -

-

Department of Commerce

Economic Development Administration

National Institute of Standards and Technology (NIST)

National Oceanic and Atmospheric Administration (NOAA)

National Oceanic and Atmospheric Administration (NOAA)

Total Department of Commerce

11.313

11.609

11.417

11.482

499,454

217,287

1,427,740

37,636

2,182,117

-

-

281,547

15,386

296,933



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Compliance Supplement



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Compliance Supplement

What is the Compliance Supplement?

- Provides information to auditors to understand Federal program objectives, procedures and requirements subject to audit.
- Roadmap for auditors in conducting the audit; use of the Compliance Supplement is mandatory
- Updated annually to reflect changes / additions to program requirements

How is it Structured?

- Part 1: Provides context for the purpose and applicability of the supplement
- Part 2 & 3: Provides for 12 types of compliance requirements and the associated audit objectives and suggested audit procedures to assist the auditor with planning and performing the audit
- Part 4: Outlines the program requirements for the respective program (e.g., ALN / CFDA)
- Part 5: Identifies clusters of programs; sets from program requirements for the **Research and Development cluster**



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Compliance Supplement

Part 2: Compliance Requirements (with R&D Indicator)

A. Activities Allowed or Unallowed	Y	H. Period of Performance	Y
B. Allowable Costs / Cost Principles	Y	I. Procurement Suspension & Debarment	Y
C. Cash Management	Y	J. Program income	N
E. Eligibility	N	L. Reporting	N
F. Equipment, Real Property Management	Y	M. Subrecipient Monitoring	Y
G. Matching, Level of Effort, Earmarking	N	N. Special Tests and Provisions	Y



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FAC Data Trends



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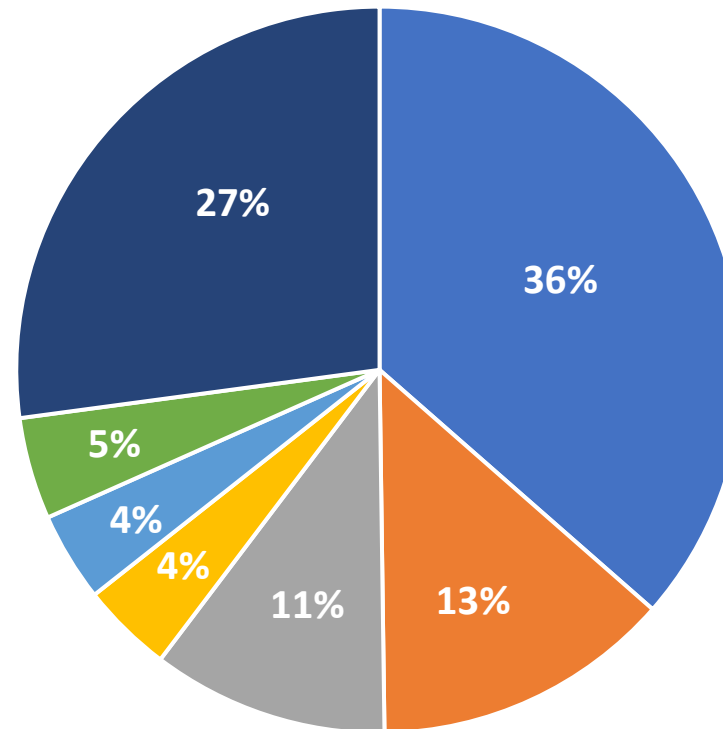


Findings by Cluster

There were **47,066** total findings reported in FAC for fiscal year 2022 single audits.

- R&D findings represent 36% of the total findings
- 27% of findings were for individual, “non-clustered” programs

Audit Findings by Cluster



- Research & Development
- Child Nutrition
- Student Financial Assistance
- SNAP
- Health Center Program
- Other Clusters
- Non-Clustered Programs



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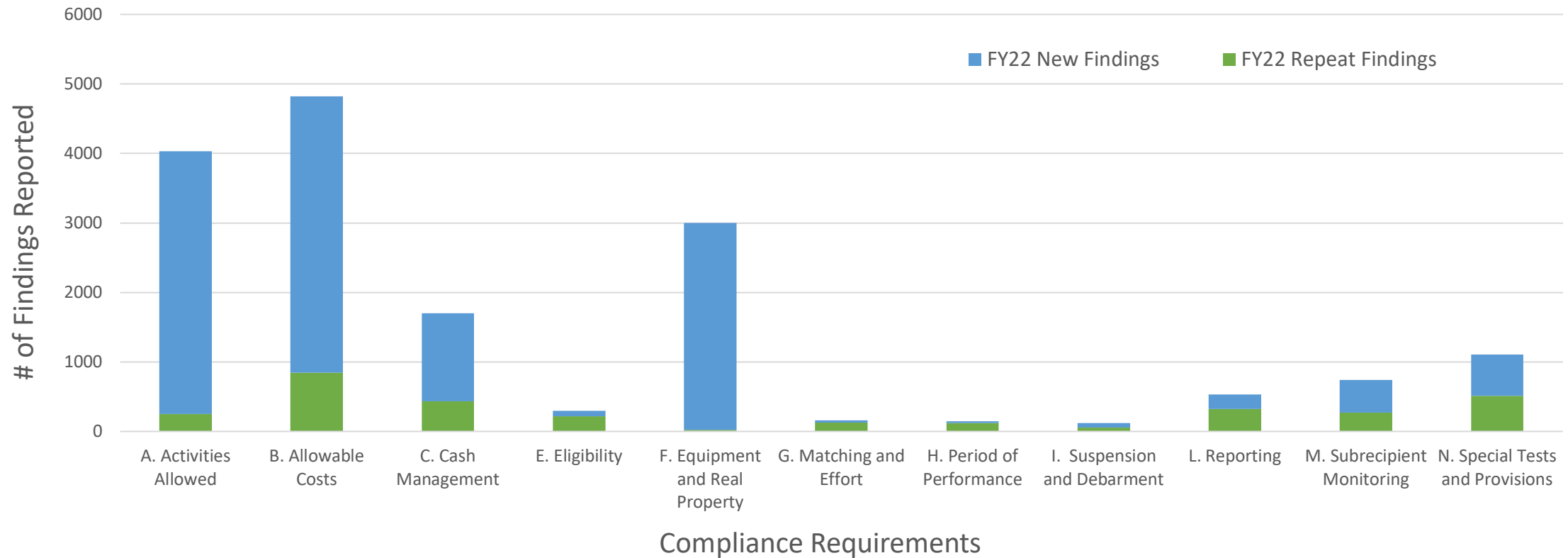
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R&D Findings by Compliance Requirement

FY22 R&D Findings





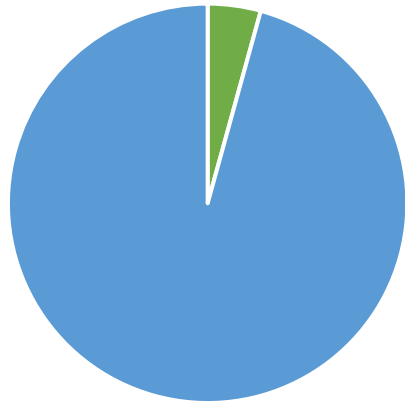
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FY22 Audit Findings

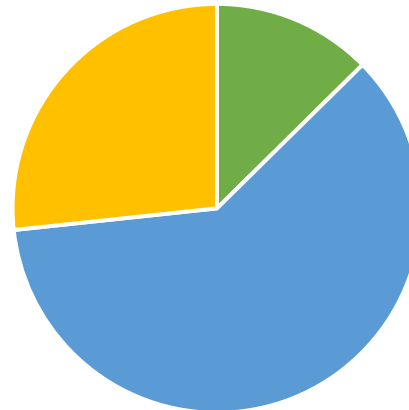
Types of Audit Report



■ Modified ■ Unmodified

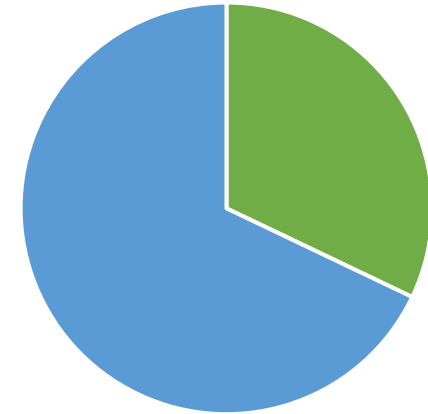
Material weakness in internal control – deficiency in internal control such that there is a reasonable possibility for material noncompliance

FY22 Internal Control Compliance of Federal Programs



■ Material Weakness ■ Significant Deficiency
■ None Reported

FY22 Questioned Costs Major Federal Programs



■ Yes ■ No

Deficiency in internal control – design or operation of control does not allow for timely the prevention, detection, or correction of noncompliance



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Internal Controls



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Internal Controls Overview

- Internal controls are the mechanisms, rules, and procedures implemented by an entity and designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - Ensure financial and accounting information integrity
 - Promote accountability and reduce opportunity / potential for internal staff and administrators to commit fraudulent activities
 - **Promote federal compliance and adherence to laws and regulation**
 - Improve operational efficiency by communicating clear rules and regulations
 - Help facilitate internal and external audits



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Internal Controls Overview

Uniform Guidance 2 CFR 200

§ 200.303. Entities must establish and maintain effective internal control over Federal awards to provide **reasonable assurance** that awards are managed in compliance with Federal requirements

§ 200.514. Auditors must obtain an understanding of the entity's internal control over Federal programs sufficient to plan the audit to support a **low assessed level of control** risk of noncompliance for major programs.

OMB Compliance Supplement Part 6

- For **institutions**, Part 6 serves as a guide to facilitate compliance with federal requirements
- For **auditors**, Part 6 serves as a guide to conducting the Single Audit
- Provides **illustrative controls** over compliance organized by The Green Book and COSO Framework control components



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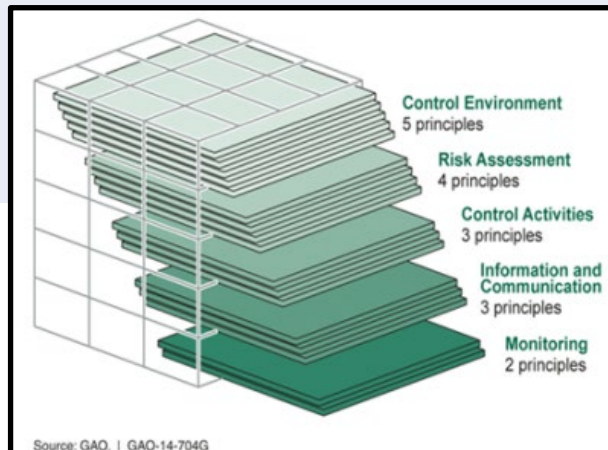


Internal Controls Overview

The Green Book

Standards for Internal Control in the Federal Government

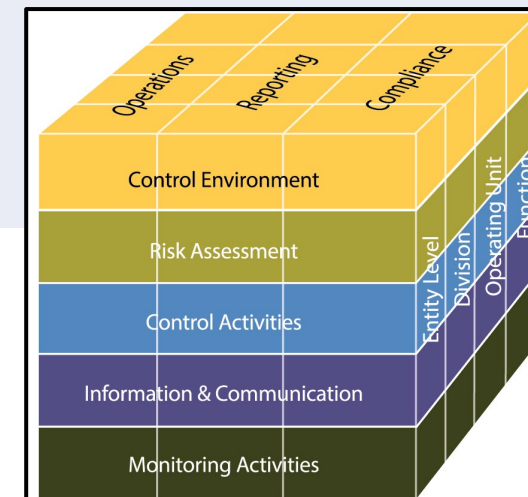
- Sets the standards for an effective internal control system for federal agencies



COSO

Internal Control Integrated Framework

- Help institutions ensure proper internal controls were set in place and compliance measures met





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Internal Control Framework



Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring Activities
Sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.	Institution's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.	Policies and procedures that help ensure that management directives are carried out.	Identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.	Process that assesses the quality of internal control performance over time.



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Internal Control Framework

Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring Activities
<ol style="list-style-type: none">1. Demonstrate commitment to integrity and ethical values2. Ensure that board exercises oversight responsibility3. Establish structures, reporting lines, authorities and responsibilities4. Demonstrate commitment to a competent workforce5. Hold people accountable	<ol style="list-style-type: none">6. Specify appropriate objectives7. Identify and analyze risks8. Evaluate fraud risks9. Identify and analyze changes that could significantly affect internal controls	<ol style="list-style-type: none">10. Select and develop control activities that mitigate risks11. Select and develop technology controls12. Deploy control activities through policies and procedures	<ol style="list-style-type: none">13. Use relevant, quality information to support the internal control function14. Communicate internal control information internally15. Communicate internal control information externally	<ol style="list-style-type: none">16. Perform ongoing and periodic evaluations of internal controls17. Communicate internal control deficiencies



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Key Indicators of Strong Internal Controls



Sense of the entity
conducting
operations ethically



Positive
responsiveness to
questioned costs



Staff knowledge of
compliance
requirements



Training programs





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Internal Controls: Single Audit Application

- Internal controls will differ from institution to institution, considering:
 - Research Volume (granting agencies, number of subawards)
 - Institutional History (past audits, previous internal investigations)
 - Enterprise Structure (affiliated institutions, faculty appointments)



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Internal Controls: Single Audit Application

Risk Analysis

- Focus controls on high-risk processes:
 - Greatest chance for misapplication of charges to a Federal award
 - High-dollar transactions
 - Transaction type (equipment, foreign travel, etc.)

Cost Benefit Analysis

- How **many** controls impact a process?
- How **effective** can the control be?
- How **broadly** is the control applied?



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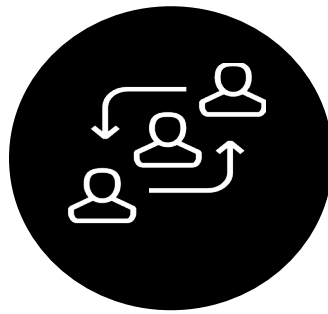
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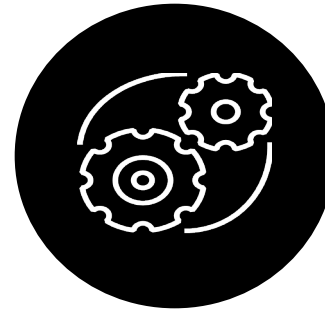
Internal Controls: Single Audit Application



Cost



Service



Efficiency



Compliance

Are you striking the right balance?





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Best Practices



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Best Practices

- Do Your Homework!
 - Scrub your data
 - Document internal controls and procedures for SEFA preparation and review
 - Perform a risk assessment - know your gaps
 - Review prior year audits
 - Know what is being audited



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Audit Life Cycle

Transaction

- Evaluate for allowability and reasonableness before processing
- Collect backup documentation and file it
- Review and evaluate the transaction before approving

Reconciliation

- Confirm expenses are recognizable, right, reasonable, and reviewed
- Correct errors that are identified
- Document reconciliation completion

Audit

- Notification – often not much time to prepare
- Fieldwork – auditor gathers information
- Assessment – auditor may send a report of their findings, or you may receive nothing

Resolution

- Submit response
- Remove disallowed expenses if necessary
- Corrective action plan
- Worst case scenario – possible fine or other consequence

Internal Controls

Single Audit



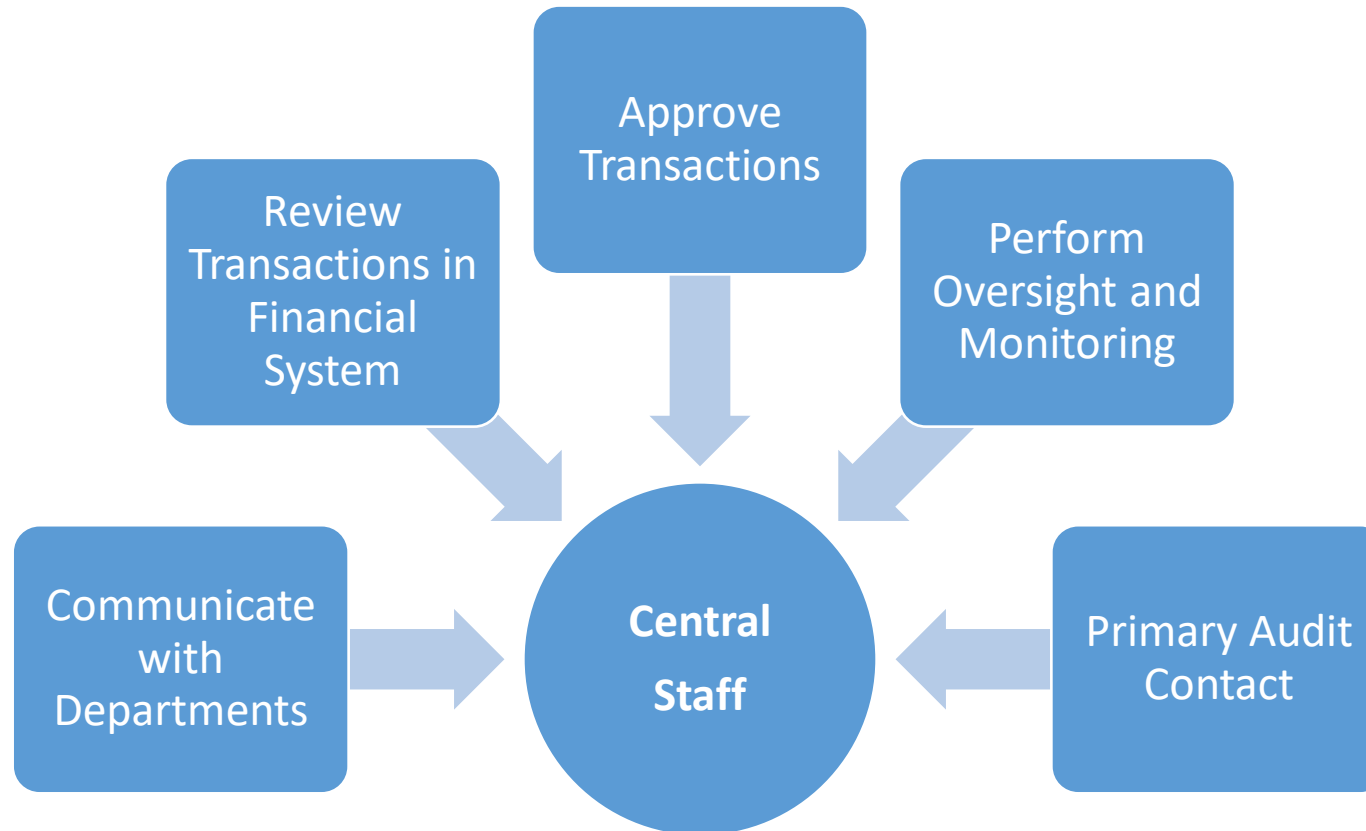
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Critical Roles: Central Staff





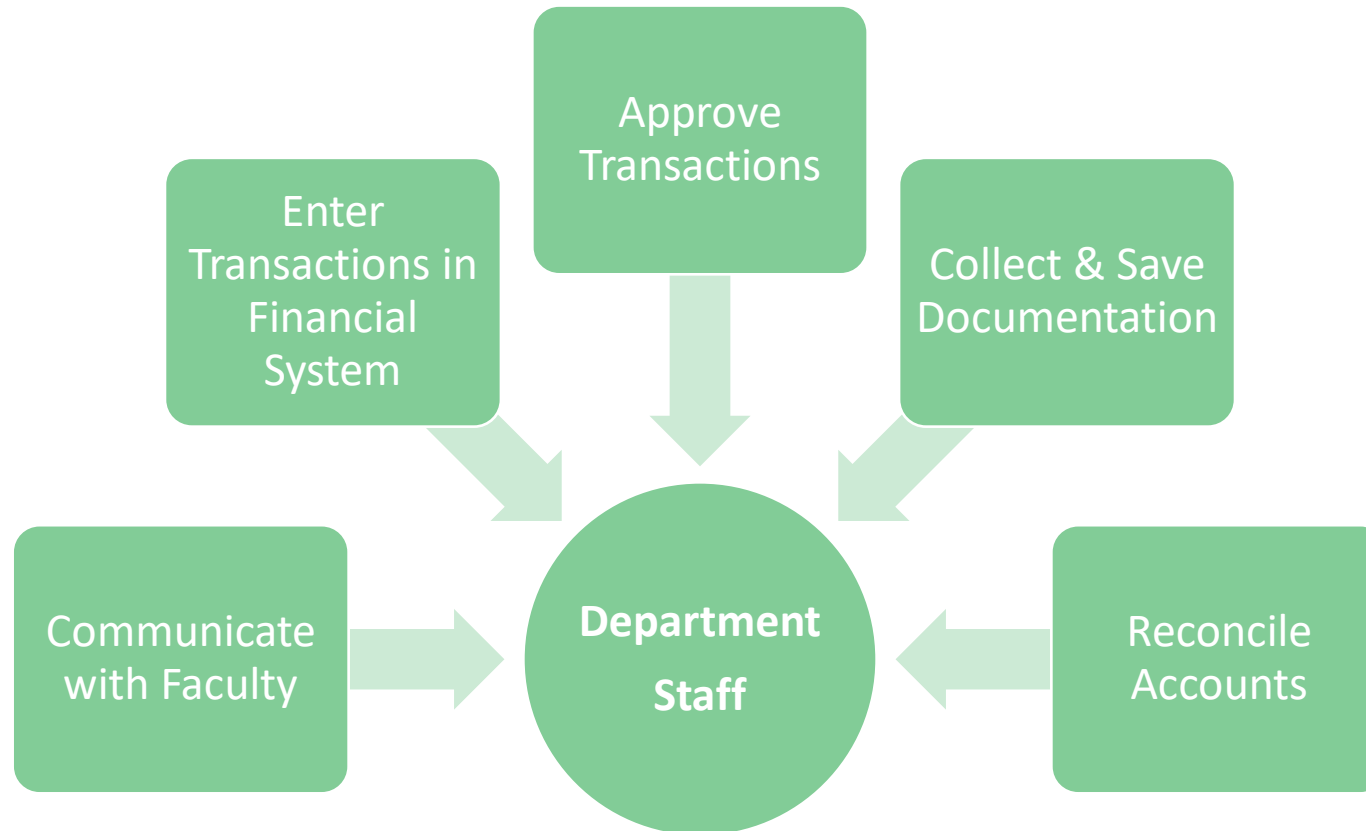
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Critical Roles: Department Administrator





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Critical Roles

PI

- Provides explanation of direct benefit to the awards
- Understands responsibilities for programmatic, administrative and financial oversight

Department

- Communicate with faculty
- Enter transactions in financial system
 - Approve transactions
 - Collect & save documentation
 - Reconcile accounts

Central

- Primary auditor contact
- Coordinates the audit
- Reviews and submits audit documentation



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Best Practices

DO

- Have and be prepared to share documented controls, policies and procedures
- Provide the documentation specifically requested by the auditors and have proper support available
- Coordinate discussion with auditors through your institution's defined audit role
- Audit yourself before Federal audits

DON'T

- Indicate federal guidance as policies and procedures
 - Provide more than what is requested by the auditor
 - Initiate or engage inside discussions or other communications with auditors that are not coordinated through your institution's defined audit role
 - Do not wait until the audit to identify areas of weakness
-



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Closing Thoughts

- Audits are a necessary function that are important to evaluate your institution's performance and controls.
- Audit findings are not the end of the road. Most audit resolutions result in less than half of the questioned costs being upheld.
- The point for above is to not overreact: they are opinions of an auditor and be confident in your controls and your understanding of the regulations. Adjust where it makes sense.
- To succeed in an audit, establish well defined and understood controls, plan ahead, and work with auditors in a cooperative manner.



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Appendix



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Resources

- [2 CFR Part 200, Subpart F, Audit Requirements](#)
- [2023 Compliance Supplement](#)
- [Federal Audit Clearinghouse](#)
- [Single Audit Resource Center](#)