



Special Report: The Single Audit

What to Expect When You're Expecting a Federal Funds Audit

Are you getting ready for your grant to be audited?

Wondering what to expect when the auditors show up and start digging through your grant management?





What to Expect from an Audit

Many of us have gone through the standard financial audit, but when the focus shifts to auditing federal grant management, we may be apprehensive about what areas will be scrutinized.

Fortunately, the Compliance Supplement (Appendix XI of 2 CFR Part 200) gives us insight into what auditors are looking for so grantees can prepare.

Three Main Audit Sections

When your grants are getting audited, the process focuses on three main areas:

1 **Audit Section One: Financial Statements**

This section of the audit looks to see if the financial statements are presented fairly in conformance with Generally Accepted Accounting Principles (GAAP) and if the Schedule of Expenditures of Federal Awards (SEFA) is presented fairly concerning the overall financial statements.

So far, so good. You've probably been through this type of analysis before.

2 **Audit Section Two: Internal Controls**

This part of the audit looks at internal control and compliance with the Government Auditing Standards.

Review of internal controls includes testing internal controls and analyzing and reporting on the results of the tests.

You may be familiar with this, as well as looking at internal controls, which are typically included as part of a standard financial audit.

However, be prepared for increased scrutiny of the financial management system and internal policies and procedures.

Expect a focus on how your organization's internal controls *safeguard the federal funds* flowing in and out of your organization.

3 **Audit Section Three: Compliance with Laws and Regulations**

Here's where the rubber meets the road from a grant management standpoint.

Auditors seek compliance with applicable laws, regulations, and federal award terms and conditions.

Everything related to your grant management process and program results is open for inspection.

You should expect discussions with direct and indirect personnel about various topics, from subrecipient monitoring to suspension and debarment compliance documentation.



For organizations new to this part of the audit process, it can be a nerve-racking experience wondering what the focus areas of this part of the audit will be. Some of the most common compliance issues identified in audits are in the areas of:

- Procurement,
- Sub-recipient monitoring,
- Cost sharing,
- Reporting, and
- Allowable Costs.

Since these can be high risk areas, it pays to have written policies and procedures in place in these areas and ensure that they are being followed.

Audit Secrets Every Grant Manager Should Know

Understanding some fundamental things about grants compliance can help you focus your efforts. We've analyzed audit results in numerous cases where good grants went bad to identify some common issues when it comes to audits.

Here are *seven secrets that you should know* when preparing for audits:

1 Secret #1 Good Works Don't Buy You a Pass

It doesn't matter how many testimonials you have or how long your history of doing good works. If you don't comply with the requirements, there is no "*get out of jail free*" card. Even *nice people* must comply with the Administrative Requirements and Cost Principles in 2 CFR Part 200, plus the specific award terms and conditions.

2 Secret #2 You Still Must Deliver

The pickiest compliance plan in the world still requires *real-life results*. You can have the best internal control environment, but at the end of the day, you still need to *complete the program's objectives*.

That's why auditors look at the reports for *program performance and accomplishments*.

It's not enough to spend the federal funds perfectly; you must also stand and deliver.



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Secret #3 You Have to Ask Hard Questions

Monitoring is integral to any grant and can't be left to just one or two finance-type folks.

- Are you asking the hard questions about the use of federal funds?
- Do subrecipients provide sufficient backup for their spending?
- What happened to those laptops we had at the start of the grant?
- Do we really need to pay those consultants so much?

It takes a **“village”** to stop the waste, fraud, and abuse of taxpayer dollars. Don't leave it for the **“other”** guy.



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Secret #4 Loosey Goosey Won't Cut It

It seems so great. All this work to win your grant, and now...you get to spend OPM (aka **“other people's money”**).

Full steam ahead to meet the program objectives...

Wait a minute... what's missing?

When programs get into trouble, there is almost always a breakdown in the internal control environment.

Simply put, bad things happen when grant expenditures, including personnel, fringe benefits, travel expenditures, consultant payments, and other types of spending, are happening **fast and furiously**-and no one is taking time for the **“paperwork.”**

Stop, take a deep breath, and then make sure:

- The spending is for allowable costs **ONLY**
- The expenditure is authorized by the right people ahead of time
- The spending is **sufficiently documented**



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Secret #5 When You Take the Money Matters

Hey, life is good!

Whenever you want money, you just draw funds, which appear in your bank account a few days later.

What a *relief!* We are never going to worry about insufficient funds ever again!

But then there's that *inconvenient truth*: You can't draw more money than you need for your immediate cash needs.

Payment management is one of the *first things* auditors look for when they start digging through your records.

Lots of groups get in trouble with this one, *so watch out*. You should have a written policy/procedure for grant payment management.

Make sure you can prove you *don't* have excess grant funds sitting around in your organization's bank account.

The money should come in and turn right around to pay for allowable costs for that *specific* grant.

It's not there to cover *other* needs.

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Secret #6 Get Stuck on Budgets

It may not seem like it after watching the budget battles on Capitol Hill, but federal agencies really *expect* grant recipients to *stick to the program budget*.

If things happen to change the program's needs, have that conversation with your program officer.

Don't put your head in the sand and say "*la, la, la.*"

Even worse, don't start spending the budget on a bunch of things that were never contemplated in the grant proposal just because you have a little "*extra money.*"

Reporting your spending against the program budget is a *requirement* for receiving federal funds.

Don't plead ignorance.

A mindless "*use it or lose it*" spending plan will always get you in trouble.



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Secret #7 Be the Adult

Sometimes, you must speak up and insist that the regulations are followed. We all hate to *chase people down* for receipts and approvals.

Physical inventories are not anyone's *favorite weekend activity*.

But that is part of *responsible grant administration*.

Be the adult and require the rules that bring the grant funds flowing are followed.

It's better to *do it now* than experience the consequences of frozen or disallowed grant funds.

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BONUS SECRET Don't Assume People Know the Right Thing to Do

Training is often a requirement for corrective action plans *after you screw up*.

How about offering training in the *beginning, middle, and end* so people will *actually know* what is expected of them?

The organizations that stay out of trouble know that regular *training is part of good grants management* and will keep them out of trouble in the long term.

Little Known Factors That Can Affect Your Audit

When you manage a federal grant, you must understand the allowable cost compliance requirements.

After all, the goal of the Cost Principles regulations is to make sure that money spent on federal grants is used for:

- Allowable activities
- Allowable goods and services

However, three factors that can be overlooked may affect your Single Audit. They are:



Ethics



Insight



Communication



Factor #1:

Ethics Matter - 5 Things Auditors Look For

Ethics involve more than just signing a Code of Conduct once a year. Auditors look at the overall environment of the organization as well.

What is the ethical climate of the organization?

1. Are there written Code of Conduct and Conflict of Interest policies and do employees understand these policies?
2. Do managers investigate and enforce penalties when grant funds are misused?
3. Is there awareness at the organization of the importance of keeping federal spending separate from non-federal spending?
4. Does a list of allowable and unallowable costs exist for personnel working on the federal award?
5. Is there an approval process for spending?

Factor #2:

Insight - Can You Identify the Holes

Do managers clearly understand their staff, processes, and controls so that they can identify where unallowable costs could “slip through” and be charged to a federal grant without being detected?

Factor #3:

Communications - What is the Process?

In other words, how is the concept of allowable costs vs. unallowable costs communicated to staff?

1. Are budget vs. actual reports shared and reviewed by the appropriate management level on a timely basis?
2. Are there established communication channels both within the organization and outside, such as program officers and board members?
3. Are written policies and procedures shared with relevant staff?

Examples of Compliance Activities:

Here are some examples of activities that support allowable cost compliance in the minds of the Single Audit Act Auditors:

- The supporting documentation for spending is compared to a list of allowable and unallowable costs.
- An individual knowledgeable about the allowable activities and the allowable types of costs is the one who authorizes the spending.
- Calculations are checked for accuracy.
- Responsibility for activities and spending on federal vs. non-federal projects are clearly separated.
- Adequate separation of duties exists between authorizing and reviewing federal spending.
- Unallowable costs are detected, and there is follow-up to determine the cause when appropriate.

The expenditures must be allowable whether you're spending dollars or time on a federal grant.



Why It Matters

Since the pandemic, we have seen over \$1 trillion in federal funds awarded yearly.

How long will this continue? It's hard to say.

But whatever the federal funding amount, if you want to increase the ability to *reach more people* and *make a bigger difference*, you *don't* want to be frozen out of Federal awards.

Here are three reasons why successful grant management is more critical than ever.

Reason #1:

Federal agencies will do a RISK assessment of your organization before awarding Federal \$\$\$

Reason #2:

Federal agencies will put more emphasis on performance MEASUREMENTS over the life of the award than ever before.

Reason #3:

Federal agencies are mandated to ensure AUDIT findings are resolved on time and ensure that the same old problems don't continue year after year.

So, don't wait...

It's more important than ever because the grant regulations highlight risk reduction BEFORE the award starts, as well as performance measurements and clean audit reports AFTER the award starts.



Are You Ready to Take Your Grant Training Even Further?

We've put together the most up-to-date and comprehensive virtual training on the federal grants we've ever produced. See our Online Grant Training.

Be confident with federal grants!

This special report you've just read has covered the basics of building your grant expertise ... but that's just the beginning.

We've been expanding training and resources for federal grants for over a decade. We've been fortunate enough to enjoy much success along the journey, but it took a lot of work... and we've made our share of mistakes along the path.

- What if you could benefit directly from those years of experience – and avoid making similar mistakes?
- What if you could effortlessly access the lessons of grant professionals all working towards the same goal as you?
- What if you could easily keep up with the latest grant resources, changes, and trends?

We've got something to show you. Our online grant training platform supports a well-trained workforce with training, e-mentoring, and other resources to get you ready quickly and easily.

Click here to discover what supported Federal Grant Training can do for you!