Preparing and Writing Findings in Yellow Book and Single Audits

PAW4/26/V1

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Contents for Today's Course

- Section 1 – Preparing and Writing Yellow Book Findings
- Section 2 – Preparing and Writing Single Audit Findings
- Section 3 – Issues to Avoid in Preparing and Writing Findings

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Section 1

Preparing and Writing Yellow Book Findings

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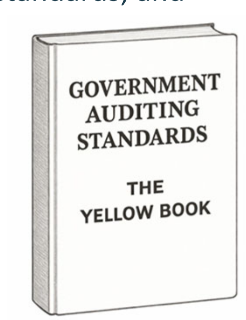
Section 1 – Learning Objectives

- Our objectives for this section are to:
  - Recognize what types of findings get reported in Yellow Book audits;
  - Understand how findings are written under the GAO standards; and
  - See where findings appear in the reporting process



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An Elevated Level of Transparency

- For entities undergoing Yellow Book audits, a higher level of accountability is owed to the U.S. taxpayer as the auditee is typically receiving one or more of the following:
  - Taxpayer-funded grants, awards, and/or other resources;
  - The ability to impose taxes; and/or
  - Preferential tax-exempt status
- This higher level of accountability is manifested in the Yellow Book via its elevated level of transparency in audit reporting (e.g., certain matters that are communicated in a **letter to management and those charged with governance** in a GAAS audit are formally **reported** in a Yellow Book audit)
- While this increased level of transparency may be uncomfortable to auditees, it does help focus their attention on areas needing improvement

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An Elevated Level of Transparency

- When reporting on a Yellow Book audit, auditors are required to **report as findings**:
  - **Significant deficiencies** and/or **material weaknesses** in internal control over financial reporting;
  - Identified or suspected **noncompliance with provisions of laws, regulations, contracts, or grant agreements** that has a **material effect** on the financial statements; and
  - Identified or suspected **fraud** that is **material**, either quantitatively or qualitatively, to the financial statements
- In this section, we will examine each of the above types of findings

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Exercise 1

In the previous five Yellow Book audits, you reported the same significant deficiency at a small client. The client's CFO has asked you to not report the finding in the current year as they "get the point and just cannot afford to do anything about it." **Can we simply not report the significant deficiency in the current audit period?**

Solution to Exercise 1

No. The Yellow Book requirements to report significant deficiencies and/or material weaknesses apply regardless of cost or other considerations that management and those charged with governance may consider relevant in determining whether to remedy the deficiency. Either the finding is there or it is not, and if it is there, the auditor is required to report it.

Significant Deficiencies and/or Material Weaknesses in Internal Control Over Financial Reporting

- By far, the most common findings in Yellow Book audits are internal control deficiencies
- The Yellow Book explains that the AICPA requirements to communicate significant deficiencies and material weaknesses identified during an audit (i.e., the requirements in AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*) form the basis for the reporting required under the Yellow Book
- An internal control deficiency that is considered to be a significant deficiency or a material weakness under AU-C section 265 is a reportable significant deficiency or material weakness under the Yellow Book

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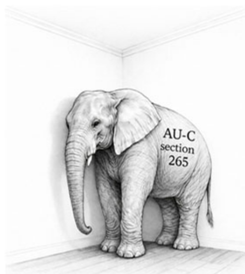
AU-C Section 265

- Despite being one of the most visible and commonly applied areas of professional standards, AU-C section 265 still has an uncomfortable feel to many, if not most, auditors and auditees
- However, a solid understanding of AU-C section 265 is essential to properly develop and report significant deficiencies or material weaknesses under the Yellow Book



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AU-C Section 265

- AU-C section 265 does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control or designing and performing tests of controls beyond the requirements found in AU-C sections 315 and 330. The auditor's adherence to AU-C sections 315 and 330 will drive the majority of items communicated under AU-C section 265. For example, when the auditor is evaluating the design of controls and determining whether they have been implemented (under AU-C section 315), the auditor may identify deficiencies in internal control that will need to be communicated under AU-C section 265 (e.g., the presence of a poorly designed control or perhaps a well-designed control that is not being implemented)

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The Definition of a **Deficiency in Internal Control** Is Critical to the Application of AU-C Section 265

- The first requirement in AU-C section 265 states that the auditor should determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control
- AU-C section 265 states that a **deficiency in internal control** over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis
- A deficiency in internal control can be related to either the **design** or **operation** of a control

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A Deficiency in Internal Control Can Be Related to Either the **Design** or Operation of a Control

- A deficiency in **design** exists when either a control necessary to meet the control objective is missing **or** an existing control is improperly designed so that even if the control operates as designed, the control objective would not be met

Examples of Conditions That Could Represent Deficiencies in the **Design** of Controls

- Poor design of controls over the preparation of the financial statements
- Poor design of controls over a significant account or process
- Poor documentation of the components of internal control
- A lack of segregation of duties within a significant account or process
- Poor controls over the safeguarding of assets
- Personnel who lack the qualifications and training to perform their assigned roles

Exercise 2

As CPAs, we toss out the term **segregation of duties** quite a bit when discussing internal control deficiencies. **If a client were to ask you what segregation of duties means, how would you describe it?**

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Solution to Exercise 2

- When we're talking about **segregation of duties**, we are essentially trying to break down a transaction or process into four phases:
  - Custody;
  - Reconciliation;
  - Authorization; and
  - Bookkeeping/recordkeeping
- If an individual controls multiple phases, we try to either segregate the duties or develop compensatory controls (e.g., additional reviews, dual authorizations, etc.)

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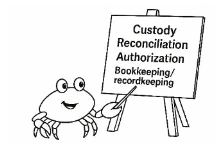
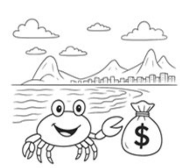
Solution to Exercise 2

- Below is an illustration of the questions we might ask when looking at the segregation of duties over payroll:
  - **C**ustody – Who has access to the payroll system and/or distribution of payroll?
  - **R**econciliation – Who is responsible for verifying each payroll cycle and making sure it is properly recorded?
  - **A**uthorization – Who has authority to process payroll and/or make changes to pay rates/payee information?
  - **B**ookkeeping/recordkeeping – Who has access to the payroll system, accounting system, and payroll records?



Solution to Exercise 2

- Generally, if one individual controls more than one of the four phases of a transaction or operation, we have a segregation of duties issue and need to try to either segregate the duties or develop some type of compensatory control (e.g., have additional reviews of the process, dual authorizations, etc.)
- If one individual is over all four phases, we have a severe lack of segregation of duties and an environment much more conducive to fraud or errors occurring and going undetected
- Later in the course, we'll look at some reported findings related to segregation of duties



A Deficiency in Internal Control Can Be Related to Either the Design or **Operation** of a Control

- A deficiency in **operation** exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively

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Examples of Conditions That Could Represent Deficiencies in the **Operation** of Controls

- Failure in the operation of a properly designed control over a significant account or process
- Failure of controls intended to safeguard assets
- Failure to perform timely or accurate reconciliations of significant accounts
- Management override of controls
- An observed deviation rate in excess of the number of deviations anticipated by the auditor in a test of the operating effectiveness of a control

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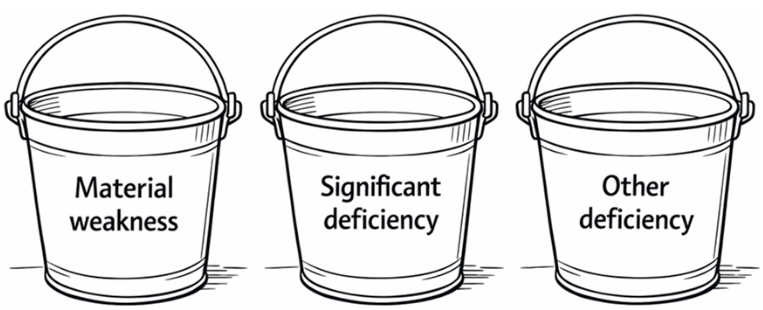
Classifying Identified Deficiencies in Internal Control

- When the auditor has identified one or more deficiencies in internal control, AU-C section 265 then requires the auditor to evaluate each deficiency to determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies or material weaknesses

Under AU-C Section 265, the Auditor Will Classify Identified Deficiencies in Internal Control Into One of Three Categories (i.e., Buckets) of Deficiencies



Material weakness	Significant deficiency	Other deficiency
A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.	A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.	A deficiency in internal control that is not a material weakness or a significant deficiency but, in the auditor's professional judgment, is of sufficient importance to merit management's attention.

A Simplified Checklist To Determine Whether an Identified Deficiency Is a Material Weakness

(**Note.** If the answer to both of the following is "yes" we have a material weakness by definition)

Yes	No	
☐	☐	Is there a reasonable (i.e., more than remote) possibility that a misstatement could occur without detection and correction?
☐	☐	Could the misstatement be material?

Note:

If we did not answer "yes" to both of the above but believe that the deficiency is important enough to merit attention by those charged with governance, we would have a significant deficiency

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AU-C Section 265 Provides Four Indicators of Material Weaknesses in Internal Control

1	Identification of fraud, whether or not material, on the part of senior management;
2	Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
3	Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control; and
4	Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

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Exercise 3

		True or False
1	If an auditor reports material weaknesses and/or significant deficiencies under the Yellow Book requirements, he/she would have also satisfied the AU-C section 265 requirement to provide written communication of significant deficiencies and material weaknesses.	
2	The Yellow Book requires auditors to break down material weaknesses or significant deficiencies into certain elements (i.e., criteria, condition, cause, and effect or potential effect) and report those elements. However, AU-C section 265 does not require auditors to break down these findings in a similar manner.	

Solution to Exercise 3

		True or False
1	If an auditor reports material weaknesses and/or significant deficiencies under the Yellow Book requirements, he/she would have also satisfied the AU-C section 265 requirement to provide written communication of significant deficiencies and material weaknesses.	**True, provided that** the Yellow Book report (i.e., the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*) is distributed to management and those charged with governance within 60 days following the financial statement report release date.
2	The Yellow Book requires auditors to break down material weaknesses or significant deficiencies into certain elements (i.e., criteria, condition, cause, and effect or potential effect) and report those elements. However, AU-C section 265 does not require auditors to break down these findings in a similar manner.	**True.** While the Yellow Book is very specific in terms of breaking down and reporting the various elements of a finding, AU-C section 265 is not. AU-C section 265 just requires a description of the finding and an explanation of its possible effect.

Exercise 4

Lizzie is performing a Yellow Book audit of a new client. She has observed a couple of internal control deficiencies that she believes management should be aware of, but they do not rise to the level of a significant deficiency or a material weakness. **Is Lizzie required to communicate or report these lesser internal control deficiencies to anyone?**

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Solution to Exercise 4

- **Yes**. While the Yellow Book does not directly address internal control deficiencies below the significant deficiency or material weakness level, it does indirectly address them by incorporating the AICPA SASs. AU-C section 265 refers to such lower-level deficiencies as being **other deficiencies in internal control**
- AU-C section 265 requires auditors to communicate to management in writing or orally other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention. If other deficiencies in internal control are communicated orally, the auditor is required to document the communication

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Solution to Exercise 4

Note:

Paragraph .A27 of AU-C section 265 discusses that, when the auditor has communicated deficiencies in internal control **other than significant deficiencies or material weaknesses** to management in a prior period and management has chosen not to remedy them for cost or other reasons, the auditor need not repeat the communication in the current period but certainly may choose to (e.g., if the auditor believes the deficiency could grow into a significant deficiency or if there has been a change in management).

Yellow Book Findings Seen Much Less Frequently Than Control Findings

- As we discussed, the most common reportable findings in Yellow Book audits are internal control deficiencies
- In addition to significant deficiencies and material weaknesses, the Yellow Book also requires auditors to report:
  - Identified or suspected **noncompliance with provisions of laws, regulations, contracts, or grant agreements** that has a **material effect** on the financial statements; and
  - Identified or suspected **fraud** that is **material**, either quantitatively or qualitatively, to the financial statements

Noncompliance With Provisions of Laws, Regulations, Contracts, or Grant Agreements That Has a Material Effect on the Financial Statements

- The AICPA requirements related to noncompliance in AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, **expanded to include consideration of noncompliance with provisions of contracts and grant agreements**, provide a basis for reporting noncompliance under the Yellow Book
- Under the Yellow Book, when auditors, based on sufficient, appropriate evidence, identify or suspect noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a **material effect** on the financial statements, they **report** the finding
- Auditors also have **communication** responsibilities related to identified or suspected noncompliance that has an effect on the financial statements that is **less than material**

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Fraud That Is Material, Either Quantitatively or Qualitatively, to the Financial Statements

- The AICPA requirements related to fraud in AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*, provide a basis for reporting fraud under the Yellow Book
- Under the Yellow Book, when auditors, based on sufficient, appropriate evidence, identify or suspect fraud that is **material**, either quantitatively or qualitatively, to the financial statements, they **report** the finding
- Auditors also have **communication** responsibilities related to identified or suspected fraud that has an effect on the financial statements that is **less than material**

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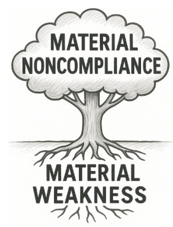
Considering Whether Noncompliance or Fraud Is **Also** an Internal Control Deficiency

- Regardless of the type of finding identified (e.g., material noncompliance with a contract or grant agreement), the root cause of a finding may relate to an underlying control deficiency
- The Yellow Book requires auditors **to also consider the existence of internal control deficiencies in their evaluation of identified findings** when developing the cause element of the identified findings



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Now That We Know What To Report, **How Do We Report It?**

- As we have discussed, under the Yellow Book, auditors are required to report:
  - **Significant deficiencies** and/or **material weaknesses** in internal control over financial reporting;
  - Identified or suspected **noncompliance with provisions of laws, regulations, contracts, or grant agreements** that has a **material effect** on the financial statements; and
  - Identified or suspected **fraud** that is **material**, either quantitatively or qualitatively, to the financial statements
- Due to its emphasis on transparency, the Yellow Book provides requirements regarding **how** we report these findings

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The Development of Certain Required Elements of Findings

- Because we are **reporting** findings under the Yellow Book instead of less formally **communicating** them as we would under GAAS, the Yellow Book desires that the findings be consistently written and well-thought-out
- The Yellow Book performance (i.e., fieldwork) requirements discuss that when auditors identify findings, they are required to plan and perform procedures to develop the elements of the findings to the extent that the elements are relevant and necessary to achieve the audit objectives
- In a Yellow Book audit, findings consist of four elements

The Four Elements of a Finding

Criteria + Condition + Cause + Effect or potential effect = Finding

The Yellow Book Descriptions of the Four Elements of a Finding

- For inclusion in findings, **criteria** may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated
  - **Criteria identify the required or desired state or expectation with respect to the program or operation**
  - Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report
  - In a financial audit, the applicable financial reporting framework, such as GAAP, represents one set of criteria
- A **condition** is a situation that exists
  - The condition is determined and documented during the audit

The Yellow Book Descriptions of the Four Elements of a Finding

- The **cause** is the factor or factors responsible for the difference between the condition and the criteria and **may also serve as a basis for recommendations for corrective actions**
  - Common factors include:
    - Poorly designed policies, procedures, or criteria;
    - Inconsistent, incomplete, or incorrect implementation; or
    - Factors beyond the control of program management
  - Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria

The Yellow Book Descriptions of the Four Elements of a Finding

- The **effect or potential effect** is the outcome or consequence resulting from the difference between the condition and the criteria
  - When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, effect is a measure of those consequences
  - **Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks**

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A Simpler Way To Think of the Four Elements of a Finding

We have just looked at the Yellow Book descriptions of the four elements of a finding. Because of the potential range of issues that can result in findings (e.g., from simply not following GAAP to not following a grant agreement), those element descriptions are somewhat lengthy and broad. The following slides provide perhaps a simpler way to think of the four elements of a finding.

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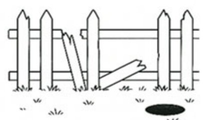
A Simpler Way To Think of the Four Elements of a Finding

Criteria ➕ Condition ➕ Cause ➕ Effect or potential effect 〓 Finding



What should have been there?	What did we find?	Why did it happen?	Why do we care?

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A Simpler Way To Think of the Four Elements of a Finding Illustrated

Yellow Book finding element:		An illustration of that element:
Criteria (What should have been there?)	➡	Entities should maintain policies and procedures to ensure that year-end accruals are properly reviewed, approved, and recorded. Supervisory reviews and approvals should be documented by the knowledgeable individual who performed the review and include the date the review was completed.
Condition (What did the auditor find?)	➡	During the audit, we found five significant receivables that were accrued as revenue as part of the year-end closing process that should not have been. This resulted in an audit adjustment of $72,000. We noted no evidence of supervisory review or approval of the entries involved.
Cause (Why did it happen?)	➡	During the year-end closing process, Entity X failed to review several significant accruals made by the staff accountant. Entity X's accounting policies do not require the staff accountant's year-end accruals to be reviewed or approved prior to entry into the general ledger.
Effect or potential effect (Why do we care?)	➡	Without proper review and approval of significant year-end entries to affirm validity and appropriateness, significant errors can occur in Entity X's financial statements without detection. Without documentation, it can be difficult to determine whether such a review has occurred.

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Exercise 5

As we have discussed, under the Yellow Book, when auditors identify findings, they are required to plan and perform procedures to develop the **criteria**, **condition**, **cause**, and **effect** of the findings to the extent that these elements are relevant and necessary to achieve the audit objectives. **What is the benefit of doing this?**

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Solution to Exercise 5

- Well-written findings satisfy the Yellow Book goal of having greater transparency to the public, awarding entities, and others
- Well-written findings can serve as a **catalyst for improvement** at the entity:
  - The **criteria** and **condition** elements can present a stark contrast between what should have been there and what was actually there; and
  - The **cause** and **effect or potential effect** elements can assist entities in understanding why the finding occurred and the importance of taking action to prevent the finding from recurring

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Exercise 6

In the Yellow Book reporting on internal control over financial reporting and on compliance and other matters, the auditor categorized the finding on the following slide as a material weakness. **Do you have any thoughts about how the finding was written?**

Exercise 6

2024-002 <u>Segregation of Duties</u>

Conditions and Criteria: [redacted] is a small office with only a few employees. In such an environment, it is difficult, if not impossible to segregate duties of the general accounting from custody and control over assets such as cash.

Cause and Effect: A fundamental element of an effective internal control system is the proper segregation of duties. Proper segregation of duties provides for a system of checks and balances and entails assigning responsibilities of authorizing and recording transactions among different people in [redacted]. Generally, assigning different individuals the responsibilities of authorizing transactions, recording transactions, and maintaining custody of the related assets reduces the opportunities for any individual to both perpetrate and conceal errors or fraud in the normal course of business. A lack of segregation of duties increases the potential risk of misappropriation of assets due to fraud.

Auditor's recommendation: We recognize [redacted] has attempted to segregate duties to the best of its ability. [redacted] should continue to seek opportunities to segregate duties including involvement from Council Members.

[redacted] *Response:* Because of the limited number of personnel in the office, [redacted] recognizes the limitations with regards to segregation of duties and therefore will consider mitigating controls. [redacted] will continue to seek involvement from [redacted] Council in terms of reviewing financial information.

Solution to Exercise 6

- When auditors combine finding elements (e.g., the prior finding combined the **condition** and **criteria** elements as well as the **cause** and **effect** elements), the risk increases that the substance of certain finding elements may be omitted
  - The **criteria** element is supposed to identify the required or desired state, and the **condition** element is supposed to describe a situation that exists. The combined **condition and criteria** elements on the prior finding do not really identify the required or desired state nor state the true condition (i.e., the situation is that a lack of segregation of duties exists)
  - The **cause** element is supposed to discuss why the finding exists, and the **effect** element is supposed to discuss why we care about the finding. While the **effect** element appears to be in the combined **cause and effect** elements on the prior finding (where it discusses that a lack of segregation of duties increases fraud risk), the **cause** element presented sounds more like the **criteria** element

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Solution to Exercise 6

- The author also suggests that auditors not make comments in findings that seem to be making excuses for a finding (as that waters down the finding). For example, in this finding, the following comments were made:
  - "In such an environment, it is difficult, **if not impossible**, to segregate duties of the general accounting from custody and control over assets such as cash"
  - "We recognize the client has attempted to segregate duties **to the best of its ability**"
- As a reminder, .A20 of AU-C section 265 reminds us that "the responsibility for evaluating the costs and benefits of implementing remedial action rests with management and those charged with governance." If the client desires, it could discuss in the **views of responsible officials** that it is doing the best it can or that correcting the issue would be impossible
  - Let clients speak for themselves if they believe they cannot implement certain controls (or compensatory controls)

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When Writing the Finding Elements, Provide the Context for the Finding

- 6.52 of the Yellow Book states that:
  - Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately
- Auditors commonly refer to the above as the **context** or perspective for the finding

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Providing a Context for the Finding

- Some auditors present the **context** for a finding as a separate component of the finding
  - In the following slide, the auditor has provided a separate context section in describing a material weakness related to a lack of segregation of duties
- Other auditors present the context for a finding within other components of the finding (e.g., quite often it is included in the **condition** element of a finding)

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Providing a Context for the Finding

2024-001. Segregation of Duties

Criteria: Internal controls should be in place which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition/Context: There is not appropriate segregation of duties among recording, distribution and reconciliation of cash accounts and other operational functions in the various funds possessed by the elected officials.

Context: Several instances of overlapping duties were noted during interviews regarding internal control procedures.

Effect: Failure to properly segregate duties among recording, distribution and reconciliation of accounts can lead to misappropriation of funds that is not detected during the normal course of business.

Cause: The lack of segregation of duties is due to the lack of a properly developed integrated work plan with appropriate controls. In addition, in certain circumstances, there are a limited number of trained individuals in each office available to perform all of the duties.

Recommendation: We recommend the duties of recording, distributing and reconciling of accounts be segregated among employees. Also, we recommend greater segregation of duties relative to: making deposits, opening mail, posting receipts, and signing of checks.

Views of Responsible Officials and Planned Corrective Action: We concur. The County is in the process of reviewing their respective systems and processes to evaluate and determine the most efficient and effective solution to properly segregate duties among all County functions to provide reasonable assurance that an individual cannot misappropriate funds without being detected during the normal course of business.

In Addition to the Four Elements of a Finding…

- As we have discussed, when presenting findings, auditors are required to develop the elements of the findings to the extent necessary to assist management or oversight officials of the audited entity in understanding the need for corrective action
- 6.53 of the Yellow Book adds that:
  - If auditors sufficiently develop the elements of a finding, they may provide **recommendations for corrective action**
  - ***Author's note:*** While 6.53 uses the word "may" regarding providing recommendations for corrective action, auditors should interpret this as "will provide recommendations" (as that is clearly the expectation). Also, the Uniform Guidance for Federal Awards requires that recommendations be provided

In Addition to the Four Elements of a Finding…

- 6.58 of the Yellow Book requires auditors to **obtain** and **report** the **views of responsible officials** of the audited entity concerning the findings, conclusions, and recommendations in the audit report, as well as any planned corrective actions
  - When auditors receive written comments from the responsible officials, they are required to include in their report a copy of the officials' written comments or a summary of the comments received
  - When the responsible officials provide oral comments only, auditors are required to prepare a summary of the oral comments, provide a copy of the summary to the responsible officials to verify that the comments are accurately represented, and include the summary in their report

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In Addition to the Four Elements of a Finding…

- Regarding the **views of responsible officials**:
  - When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors are required to evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they are required to explain in the report their reasons for disagreement. Conversely, the auditors are required to modify their report as necessary if they find the comments valid and supported by sufficient, appropriate evidence
  - If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors are required to issue the report without receiving comments from the audited entity. In such cases, the auditors are required to indicate in the report that the audited entity did not provide comments

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Where Audit Findings Get Reported

- To this point in the course, we have discussed:
  - The types of findings that get reported under the Yellow Book; **and**
  - The components of a finding [i.e., the four elements of a finding (including context), recommendations for corrective action by the auditor, and the views of responsible officials in response to the finding]
- We are now ready to discuss **where** auditors present findings in Yellow Book reporting. **As part of a Yellow Book audit, auditors have additional reporting on internal control and compliance…**

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Under the Yellow Book Reporting Requirements…

- In addition to reporting on the financial statements, auditors are required to report on **internal control and compliance with provisions of laws, regulations, contracts, or grant agreements**, regardless of whether they identify internal control deficiencies or instances of noncompliance
  - Illustrative Yellow Book reports can be found at www.aicpa.org/gaqc

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Requirements Related to the Format of the Report on Internal Control and Compliance

- Auditors are required to include either in the same or in separate report(s) a description of the scope of the auditors' testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, and grant agreements
- Auditors are also required to state in the report(s) whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, and grant agreements
  - The auditor's Yellow Book report will typically state that the auditor is not expressing an opinion on the effectiveness of internal control and not expressing an opinion on compliance

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Requirements Related to the Format of the Report on Internal Control and Compliance

- If auditors report separately (including separate reports bound in the same document) on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements, they are required to include a reference in the audit report on the financial statements to those additional reports
- Auditors are also required to state in the audit report that the reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements are an integral part of a Yellow Book audit in considering the audited entity's internal control over financial reporting and compliance
- If separate reports are used, the auditors are required to make the reports on internal control and compliance available to users in the same manner as the financial audit report to which they relate

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A Couple of Options for Presenting Findings in the Report on Internal Control and Compliance

- One option for presenting findings is to describe the findings in the report
  - This option makes the report long, and the formatting can be challenging
  - This option is probably not the best choice when the auditee also has a single audit, as we have to present the Yellow Book findings in Section II of the **schedule of findings and questioned costs (SFQC)**
- **Another option for presenting findings is to have the report refer to a separate schedule that describes the findings**
  - The AICPA recommends that findings be numbered following the format required under the Uniform Guidance for Federal Awards [i.e., the fiscal year being audited as the first four digits of each reference number, followed by a three-digit numeric sequence (e.g., 2026-001, 2026-002)]

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Exercise 7

When a Yellow Book audit is performed for an auditee that is also undergoing a single audit, the Yellow Book reporting refers to the findings presented in Section II of the SFQC. **However, if an audit is a Yellow Book-only engagement, what do we call the schedule where the findings are presented?**

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Solution to Exercise 7

- There are different terms used in practice. Some examples of the titles used are:
  - A **schedule of findings and questioned costs** (some auditors do not prefer this title, as **questioned costs** are more of a single auditing concept; therefore, the use of that term can be a little confusing if the engagement is just a Yellow Book audit);
  - A **schedule of findings and responses**; and
  - A **schedule of prior and current audit findings**
- The following four slides present two examples of findings being presented for Yellow Book-only engagements

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Yellow Book-Only Audit Reporting a Significant Deficiency Over the Lack of Segregation of Duties

- The following slide contains a finding from the audit of an entity that was required to have a Yellow Book audit but not a single audit
- The Yellow Book reporting referred to the finding, which was presented in an accompanying schedule of prior and current audit findings

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Yellow Book-Only Audit Reporting a Significant Deficiency Over the Lack of Segregation of Duties

Schedule of Prior and Current Audit Findings
Year Ended June 30, 2024

Prior Audit Findings

Finding Number 2023-001:

A significant deficiency in internal control was disclosed by our audit for a lack of proper segregation of duties for the revenues and expenditures. This finding has not been corrected and is being restated as current audit finding number 2024-001.

Current Audit Findings

Finding Number 2024-001:

A significant deficiency in internal control was disclosed by our audit for a lack of proper segregation of duties for revenues and expenditures.

Internal Control – Related Finding – Significant Deficiency

Criteria: The internal control system of a School can help assist in increased reliability of reported financial data, compliance with laws and regulations, and decreased potential for the loss of public records.

Condition: The School District has a limited number of office personnel and, accordingly, does not have adequate accounting controls in the revenue and expenditure functions because of a lack of segregation of duties.

Effect: As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation: We recommend a high level of awareness be maintained by management to assist in preventing, detecting, or correcting matters that may arise due to this internal control weakness. We recommend that management attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response: Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct matters that may result.

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Another Yellow Book-Only Audit Reporting a Significant Deficiency Over the Lack of Segregation of Duties

- The following slide contains a finding from the audit of an entity that was required to have a Yellow Book audit but not a single audit
- The Yellow Book reporting referred to the finding, which was presented in an accompanying schedule of findings and responses
- Please note that this auditor provided more detail in terms of the context of the finding related to a lack of segregation of duties. This was perhaps in part due to the client being somewhat argumentative in their response (i.e., trying to blame part of the finding on the sample of items looked at)

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Another Yellow Book-Only Audit Reporting a Significant Deficiency Over the Lack of Segregation of Duties

Type of Finding:
Significant Deficiency in Internal Control over Financial Reporting

Condition:
Through audit procedures performed, we noted that [redacted] does not have proper segregation of duties in place to document the preparation and review and approval of certain processes and procedures.

Criteria:
A well designed system of internal control should include policies and procedures to ensure the accuracy of accounting information through the review and approval of these areas.

Context:
Through audit procedures performed, we noted proper segregation of duties and oversight was not being performed in the following areas:

- Cash and investment reconciliations were prepared and reviewed by the same individual.
- Payroll was prepared and processed by the same individual.
- Two of five general journal entries tested had no documentation of review and approval.

Effect:
Inaccurate financial reporting could adversely affect the decision making process of [redacted].

Cause:
Policies and procedures had not been put into place to document the review and approval of these accounting records.

Recommendation:
We recommend that current policies and procedures over the preparation and review and approval of accounting records be updated to include the following:

- Cash and investment reconciliations should document sign-off and date by both the preparer and reviewer, and should be two different individuals.
- Payroll should be processed by two different individuals. Those individuals should document sign-off and date by both the preparer and the reviewer.
- All general journal entries should document sign-off and date by both the preparer and the reviewer.

Management's Response and Corrective Action Plan:

Regarding the reconciliations context, [redacted] accepts this finding for part of the audit period and would like to note that the organization has since corrected this process and now has two people involved in each of these tasks. The sample size selected by the auditor during this process might not be representative of the total population managed by [redacted].

Regarding the Payroll context, [redacted] accepts this finding for part of the audit period and would like to note that the organization has since corrected this process and now has three people involved in the payroll process to ensure separation of approval and payment. The sample size selected by the auditor during this process might not be representative of the total population managed by [redacted].

Regarding the journal entries context, [redacted] accepts this finding for part of the audit period and would like to note that the organization has since corrected this process and now has two people involved in this process currently. [redacted] prepares with support; [redacted] reviews and approves. The sample size selected by the auditor during this process might not be representative of the total population managed by [redacted].

Responsible party: [redacted]

Planned completion date for corrective action plan: Segregation of duties is already in place. We will monitor on-going to ensure that segregation continues to occur.

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What About Findings That Involve Both Material Noncompliance and Control Deficiencies?

- Findings that relate to both internal control over financial reporting and to compliance are generally reported in both the section of the report concerning internal control over financial reporting and the section of the report concerning compliance and other matters
- The reporting in one section of the report or schedule may be in summary form with a reference to a detailed reporting in the other section

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Moving From Finding Theory to Actual Application

Having discussed what gets reported, how it gets reported, and where it gets reported, let's look at some actual findings reported by auditors…

Yellow Book Finding Classified by the Auditor as a Material Weakness Related to Controls Over Year-End Cutoff

Reference Number	Finding
2025-003	**Finding Type** - Material weakness **Criteria** - Transactions should be evaluated and recorded in the proper periods. New leases entered into should be evaluated and recorded under GASB 87 in the year the lease commences. Invoices should be recorded in the proper period based on when the goods or services were incurred. **Condition** - During our audit, we noted that [redacted] failed to properly record certain lease additions and liabilities incurred in the proper period. **Context** - Five vehicle leases commenced in the last month of the prior year but were not recorded until the current year. It was also noted that one invoice paid after year end for approximately $200,000 related to police equipment received prior to year end was not recorded as a liability in the current year. **Cause** - [redacted] processes in place did not result in the proper recording of all leased assets and liabilities in the correct period. **Effect** - Balances were improperly stated and required adjustments. **Recommendation** - We recommend [redacted] continue to refine the procedures in place to ensure all transactions are properly accounted for in the proper period. **Views of Responsible Officials and Planned Corrective Actions** - [redacted] agrees with the findings. [redacted] management will monitor the procedures to ensure all transactions are properly recorded in the correct period.

Yellow Book Finding Classified by the Auditor as a Material Weakness Related to Closing Procedures

Finding: 2024-001: Financial Statement Adjustments
Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria
Management is responsible for the accuracy and completeness of all financial records and related information, as well as for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition
The financial information for the year ended September 30, 2024, contained material errors that were identified and corrected during our audit. Specific issues related to cut-off of expenditures/expenses, lack of balance sheet reconciliation review, untimely bank reconciliations, improper grant revenue recognition, and discrepancies between the accounting records and supporting documents.

Cause
These errors were not detected before the information was provided for the audit. There is an indication that closing procedures, specifically the monitoring and review of financial information, are not being effectively performed.

Effect or Potential Effect
Material misstatements of the City's financial statements were not prevented, or detected and corrected, by the City's system of internal control system, requiring numerous audit adjustments to correct the misstatement identified during the audit. Failure to establish effective monitoring and closing procedures will allow possible irregularities to exist and continue without notice.

Recommendation
We recommend the City establish effective monitoring and closing policies and procedures as a customary part of the accounting process, including a requirement that all the balance sheet accounts be reconciled to supporting statements and schedules.

Views of Responsible Official(s) and Planned Corrective Actions
See corrective action plan.

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Yellow Book Material Weakness Finding Related to Poor Controls Over Year-End Closing Procedures

Finding 2024-001: Year-End Closing Procedures

Audit Finding: Material Weakness

Condition: During the audit of the fiscal year 2024 financial statements, we noted that the City did not have a formalized and consistent process for closing the books at year end. Numerous audit adjustments were required to correct general ledger account balances, indicating that controls over the year-end closing process were not operating effectively.

Criteria: The City should maintain effective internal control over financial reporting, which includes the implementation of formal closing procedures. These procedures should ensure that balance sheet and income statement accounts are reconciled to subsidiary ledgers and supporting reports on a regular basis, and that the year-end close process results in accurate and complete financial statements.

Effect: The absence of adequate year-end closing procedures increases the risk that financial statements could be materially misstated. This lack of timely and accurate reconciliations reduces management's ability to detect errors or irregularities during the year, resulting in reliance on the audit process to identify and correct misstatements.

Cause: The City did not establish formalized year-end closing procedures to reconcile subsidiary ledgers and detailed reports to the general ledger on a consistent basis.

Recommendation: We recommend that the City develop and implement formal year-end closing procedures. These procedures should include documented responsibilities, deadlines, and review processes to ensure all accounts are reconciled and adjustments are recorded prior to the preparation of the annual financial statements.

View of Responsible Officials: Management concurs with the recommendation. Please refer to the Corrective Action Plan for additional details.

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Yellow Book Finding Classified by the Auditor as a Significant Deficiency Related to Limited Review Process

<u>2024-001 Lack of Review and Significant Audit Adjustments</u>

Criteria: [redacted] accounting personnel should perform monthly reconciliations and record adjustments as necessary.

Condition: The proposed audit adjustments had significant effects on the financial statements. Several of the proposed audit adjustments included routine bookkeeping and reclassification entries that should have been posted prior to the year-end closing.

Cause: In the current year, the review process was limited.

Effect: Due to the factors listed above, adjusting journal entries were needed as a result of audit testing.

Recommendation: We recommend that, on a monthly basis, accounting personnel perform a review of all account balances and ensure that all reconciliations and closing adjustments are recorded properly. There should also be a review process in place by management.

Management's Response: Management agrees with the findings above.

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Yellow Book Finding Classified by the Auditor as a Significant Deficiency Related to an Adjusting Journal Entry

Finding 2025-001 – Adjusting Journal Entry

Condition:
During the course of the audit, there was an adjusting journal entry required in order to properly present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This journal entry had a significant impact on the consolidated financial statements.

Criteria or specific requirement:
Management is responsible for adopting sounds accounting policies and establishing and maintaining a system of internal control for the fair presentation of the basic financial statements in accordance with GAAP.

Effect:
The adjusting journal was related to [redacted] self-insured health insurance and resulted in a decrease to both liabilities and claim expense of approximately $933,000.

Cause:
[redacted] was relying on and utilizing process the calculated the self-insured health insurance liability which didn't take into consideration prior year claims which may have exceeded the stop-loss coverage, resulting in reimbursement to [redacted].

Recommendation:
We recommend [redacted] closely review the area impacted by this adjustment and continue to work with its engaged third party administrator to determine the most accurate data claims data to utilize when calculating the incurred but not reported self-insurance liability.

Views of responsible officials:
There is no disagreement with the audit finding.

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Exercise 8

In the Yellow Book reporting on internal control over financial reporting and on compliance and other matters, the auditor of the entity on the prior slide categorized the finding related to the $933,000 audit adjustment as being a significant deficiency. **Why do you believe the auditor considered the finding to be a significant deficiency instead of a material weakness?**

Solution to Exercise 8

- For evaluating control deficiencies under the Yellow Book, we essentially use AU-C section 265 as our benchmark
- Under AU-C section 265, a **material weakness** is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a **material misstatement of the entity's financial statements** will not be prevented or detected and corrected on a timely basis
- Under AU-C section 265, a **significant deficiency** is a deficiency or a combination of deficiencies in internal control over financial reporting that is **less severe than a material weakness yet important enough to merit attention by those charged with governance**

Solution to Exercise 8

- In this case, the auditor found an audit adjustment of $933,000, so we certainly have a reasonable possibility (i.e., more than remote) of that level of misstatement occurring in the entity's financial statements
- However, this auditee was a large NFP healthcare entity, and the $933,000 adjustment was less than one percent of the NFP's expenses, so based on this (and probably on the fact that the adjustment appears related to an isolated area), the auditor made the judgment call to go with a significant deficiency

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Yellow Book Finding Classified by the Auditor as Material Noncompliance Due to Violation of State Budget Act

2024-003: Violation of Local Government Budget Act

Criteria: Louisiana Revised Statute 39:1311A(1-2) requires that the budget shall be amended when total revenue and other sources (including fund balance from the prior years) plus projected revenue and other sources for the remainder of the year, within a fund, are failing to meet total budgeted revenue and other sources by five percent or more and total actual expenditures and other uses plus projected expenditures and other uses for the remainder of the year, within a fund, are exceeding the total budgeted expenditures and other uses by five percent or more.

Condition: Expenditures and other uses of the School Board's General fund and Pass-through Fund, both major funds exceeded the budgeted amounts by more than 5%.

Cause: The budget monitoring was ineffective because of the lack of internal controls over financial reporting and material adjustments necessary to certain account balances creating negative budget variances.

Effect: The negative variances of more than five percent are a violation of Louisiana Revised Statute 39:1311A(1-2). Management has expended resources that were not approved by those charged with governance limiting the availability of future resources for the district.

Recommendation: We recommend that management develop written procedures to occur in early June of each year for their review and analysis of major special revenue funds and its General Fund to ensure future compliance with the local government budget act.

View of Responsible Official:
Management agrees with the reported finding. See Management's Corrective Action Plan.

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Exercise 9

If an auditee needs assistance from the auditor in preparing its financial statements (assuming the Yellow Book independence requirements are met), **should the auditor report an internal control deficiency finding?**

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Solution to Exercise 9

- This question tends to draw out strong and varying opinions from different auditors
  - Some believe this is automatically a material weakness
  - Some believe it is automatically a significant deficiency
  - Others believe that in some cases it is potentially not a reportable finding
- Even within a firm, varying thoughts can exist
- The following slide shows an internal control finding from two different auditees but the same audit firm. In one case, the firm considered its assistance to warrant a significant deficiency finding and, in the other case, to warrant a material weakness finding

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Solution to Exercise 9

<u>2025 – 002: Preparation of Annual Financial Report</u>

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition: Current District staff maintains accounting records which reflect the District's financial transactions; however, preparing the District's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The District contracts with its auditors and their knowledge of applicable accounting principles, financial statement format, and note disclosures to assist in the preparation of the annual financial report in an efficient manner. However, as independent auditors, [redacted] cannot be considered part of the District's internal control system. As part of its internal control over preparation of its financial statements, including disclosures, the District had implemented a comprehensive review procedure to ensure that the financial statements, including note disclosures, are complete and accurate.

Criteria or Specific Requirement: The preparation and review of the annual financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential omission or misstatement in the financial statements or notes or other required state financial reports.

Effect: The District may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.

Cause: District management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number was 2024-002.

Recommendation: We recommend the District continue reviewing the annual financial report. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the District's activities and operations. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the District is necessary to obtain a complete and adequate understanding of the District's annual financial report.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding. The District does not have the resources and staff to prepare the financial statements and notes but will continue to oversee the auditor's services and review and approve the financial statements and notes. The financial audit is presented to the Board of Education by the auditors and the Board of Education formally approves the financial audit.

<u>2024-001</u>

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting (Financial Statement Preparation)

Condition: The Organization does not have a policy in place to provide reasonable assurance that financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP); therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented, or detected and corrected, by the Organization's internal controls.

Criteria or specific requirement: The Organization must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures and the schedule of federal awards.

Effect: This condition increases the possibility that errors or irregularities may occur with respect to the financial statements.

Cause: The Organization has not adopted a policy over the annual financial reporting in accordance with accounting practices prescribed by accounting principles generally accepted in the United States of America; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Repeat finding: This is a repeat finding.

Recommendation: The Organization should continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

Views of responsible officials and planned corrective actions: There are no disagreements with the audit finding. We will continue to consider available options and implement any options where the risk exceeds the costs of implementation.

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Solution to Exercise 9

- The author believes that the classification of this type of finding is a matter requiring professional judgment and is heavily influenced by the facts and circumstances of the client. For example:
  - If you have a client that cannot figure out capital assets and depreciation, year-end accruals, account reconciliations, or how to prepare the financial statements, then you probably have a material weakness (as they don't have controls to prevent or detect and correct material misstatements on a timely basis)
  - If you have another client with fewer adjustments that were not as material, but they needed help in preparing the financial statements, then you probably have a significant deficiency
  - Finally, if you have a client that manages the accounting extremely well and can tell you where they are during the year but simply could not prepare the financial statements at year-end (perhaps because they really do not need full financial statements to oversee the entity financially during the year), then a case can be made that it is not a significant deficiency

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What Peer Reviewers Look for When Reviewing Yellow Book Findings

- Peer reviewers will be looking at Yellow Book engagements during peer review
- The checklists used by peer reviewers are available at the AICPA website: https://www.aicpa-cima.com/resources/article/peer-review-program-manual-prpm
- The following excerpt is from a portion of the findings section of a recent checklist, highlighting the finding elements that reviewers are looking for in the reporting of findings

What Peer Reviewers Look for When Reviewing Yellow Book Findings

Presenting Findings in the Audit Report:

	Ques.	N/A	Yes	No	Ref.
Did the auditors develop the elements of the finding, to the extent necessary, to assist management or oversight officials in understanding the need for corrective action? [GAS par. 6.51]	GA142	☐	☐	☐	
If applicable, did the auditors place their findings in perspective by describing the nature and extent of the issues and the extent of the work performed that resulted in the finding, for example, by relating the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures? [GAS par. 6.52]	GA143	☐	☐	☐	

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Supplemental Checklist—*Government Auditing Standards* (Yellow Book) 2024 Rev. **22,121A**

	Ques.	*N/A*	*Yes*	*No*	*Ref.*
If the results cannot be projected, did the auditors limit their conclusions appropriately? [GAS par. 6.52]	GA144	☐	☐	☐	

What Peer Reviewers Look for When Reviewing Yellow Book Findings

Obtaining and Reporting the Views of Responsible Officials:

For findings, conclusions, and recommendations in the audit report, did the auditors obtain and report the views of responsible officials as well as any planned corrective actions? [GAS par. 6.58]	GA147	☐	☐	☐	
If the auditors received written comments from the responsible officials, did they include in their report a copy or summary of the comments received? [GAS par. 6.59]	GA148	☐	☐	☐	
When the responsible officials provide oral comments only, did the auditors prepare a summary of the oral comments, provide a copy of the summary to the responsible officials to verify that the comments are accurately represented, and include the summary in their report? [GAS par. 6.59]	GA149	☐	☐	☐	
If the views of responsible officials are inconsistent or in conflict with the auditor's findings, conclusions, or recommendations, did the auditors evaluate the validity of such comments, and either modify their report if valid or explain the reasons for disagreement if not valid? [GAS par. 6.60]	GA150	☐	☐	☐	
If the audited entity refuses to provide comments or is unable to do so in a timely manner, did the auditors indicate such in their report? [GAS par. 6.61]	GA151	☐	☐	☐	

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What Federal Agencies Look for When Reviewing Yellow Book Findings

- Federal agencies may select single audits for desk reviews
- Desk reviews are essentially remote reviews of the submission to the Federal Audit Clearinghouse
- The checklists used by the federal agencies are available at: https://www.ignet.gov/content/manuals-guides
- The following excerpt is from a portion of the findings section, highlighting the finding elements that reviewers are looking for related to Yellow Book findings

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What Federal Agencies Look for When Reviewing Yellow Book Findings

106	**Presentation of the Audit Findings**					
107	**DR-16**	Are the Federal findings presented in sufficient detail with the following information:				
108	**DR-16a**	A reference number for each finding in the format meeting the requirements of the data collection form submission?	2 CFR 200.516(c)			
109	**DR-16b**	Federal program and specific Federal award identification, including the Assistance Listing title and number, Federal award identification number and year, name of Federal agency, and name of applicable pass-through entity. When information such as the Assistance Listing title and number or Federal award identification number is not available, the auditor must provide the best information available to describe the Federal award. *[Note: The finding may refer to the award information presented in the SEFA, as long as the SEFA contains all of the information identified in DR-9.]*	2 CFR 200.516(b)(1)			
110	**DR-16c**	The criteria or specific requirement upon which the audit finding is based, including the Federal statutes, regulations, or the terms and conditions of the Federal awards?	2 CFR 200.516 (b)(2); GAS 6.17, .25			
111	**DR-16d**	The condition found, including facts that support the deficiency identified in the audit finding?	2 CFR 200.516 (b)(3); GAS 6.17, .26			
112	**DR-16e**	A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.	2 CFR 200.516 (b)(4); GAS 6.17, .27			
113	**DR-16f**	The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action?	2 CFR 200.516 (b)(5); GAS 6.17, .28			
114	**DR-16g**	The identification of questioned costs and how the questioned costs were computed? Known questioned costs must be identified by applicable Assistance Listing and award numbers.	2 CFR 200.516(b)(6)			
115	**DR-16h**	Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as (1) whether the finding represents an isolated instance or a systemic problem, and where appropriate (2) relating instances identified to the universe and the number of cases examined, and (3) quantifying instances identified in terms of dollar value?	2 CFR 200.516 (b)(7); GAS 6.51			
116	**DR-16i**	The identification of whether the audit finding was a repeat of a finding in the immediately prior audit and if so any applicable prior year audit finding numbers.	2 CFR 200.516(b)(8)			
117	**DR-16j**	Recommendations to prevent future occurrences of the deficiency identified in the audit finding?	2 CFR 200.516 (b)(9); GAS 6.50, .52			
118	**DR-16k**	Views of responsible officials of the auditee?	2 CFR 200.516 (b)(10); GAS 6.57-.60			

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Section 2

Preparing and Writing Single Audit Findings

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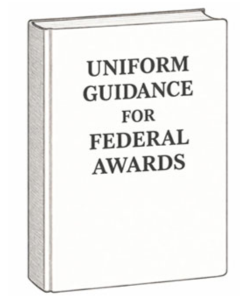
Section 2 – Learning Objectives

- Our objectives for this section are to:
  - Recognize what types of findings get reported in Single Audits;
  - Understand how findings are written under the OMB standards; and
  - See where findings appear in the reporting process



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Developing and Reporting Findings in Single Audits

- Having discussed the development and reporting of findings in Yellow Book audits, let’s move on to the development and reporting of findings in audits performed under the Uniform Guidance for Federal Awards (commonly referred to as **single audits**)
- As shown in the following slide, a single audit takes auditing to an entirely different level in terms of auditing, reporting, and transparency

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How Does a Single Audit Differ From a Financial Statement Audit?

Core responsibility:	Does the auditor have this responsibility in a **GAAS audit**?	Does the auditor have this responsibility in a **Yellow Book audit**?	Does the auditor have this responsibility in a **single audit**?
Providing an opinion on the financial statements	**Yes**	**Yes**	**Yes**
Reporting (but not opining) on internal control and compliance at the financial statement level	**No**	**Yes**	**Yes**
Providing an AU-C section 725 "in relation to" opinion on the schedule of expenditures of federal awards	**No**	**No**	**Yes**
Performing additional procedures and reporting (but not opining) on internal controls over compliance at the major program level	**No**	**No**	**Yes**
Providing an opinion on compliance for major programs	**No**	**No**	**Yes**

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A Longer Listing of Potential Findings

- In a single audit, auditors report findings in the **schedule of findings and questioned costs (SFQC)**
- **Section II** of the SFQC reports the **Yellow Book findings**
- **Section III** of the SFQC reports the **federal awards findings**, including:
  - **Significant deficiencies** and/or **material weaknesses** in internal control over compliance for a **major program**;
  - **Material noncompliance** related to a **major program**;
  - Certain **questioned costs**; and
  - Other less-seen findings (e.g., fraud)
- In the following slides, we will discuss each of the Section III findings, with an expanded focus on significant deficiencies/material weaknesses and material noncompliance

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The Auditee's Core Responsibilities Related to Internal Control Over Compliance

- The Uniform Guidance for Federal Awards **requires** that recipients and subrecipients receiving federal awards **establish**, **document**, and **maintain** effective **internal control over the federal awards** that provides reasonable assurance that the recipient or subrecipient is managing the federal awards **in compliance with** federal statutes, regulations, and the terms and conditions of the federal awards

Significant Deficiencies and/or Material Weaknesses in Internal Control Over Compliance for a Major Program

- The most common findings in single audits are internal control deficiencies
- The auditor may identify deficiencies in internal control over compliance when:
  - Obtaining an understanding of internal control over federal programs;
  - Testing the effectiveness of internal control over federal programs; or
  - Performing compliance testing

The Definition of a **Deficiency in Internal Control Over Compliance** Is Critical to the Single Audit

- In a single audit, a **deficiency in internal control over compliance** exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct noncompliance **with a type of compliance requirement of a federal program** on a timely basis
- A deficiency in internal control over compliance can be related to either the **design** or **operation** of a control

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A Deficiency in Internal Control Can Be Related to Either the **Design** or Operation of a Control

- A deficiency in **design** exists when either a control necessary to meet the control objective is missing **or** when an existing control is improperly designed so that even if the control operates as designed, the control objective would not be met

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Examples of Conditions That Could Represent Deficiencies in the **Design** of Controls

- Poor design of controls over activities subject to a type of compliance requirement
- Poor design of controls over complex types of compliance requirements
- A lack of segregation of duties over a type of compliance requirement
- Poor controls over the safeguarding of assets
- Personnel who lack the qualifications and training to perform their assigned roles

A Deficiency in Internal Control Can Be Related to Either the Design or **Operation** of a Control

- A deficiency in **operation** exists when a properly designed control does not operate as designed **or** when the person performing the control does not possess the necessary authority or competence to perform the control effectively

Examples of Conditions That Could Represent Deficiencies in the **Operation** of Controls

- Failure in the operation of a properly designed control over a type of compliance requirement
- Failure of controls intended to safeguard assets
- Management override of controls
- An observed deviation rate in excess of the number of deviations anticipated by the auditor in a test of the operating effectiveness of a control

Considering Deficiencies in Internal Control Over Compliance

- The determination of whether a deficiency is a **significant deficiency** or **material weakness** for the purpose of reporting a finding is in relation to a type of compliance requirement **for a major program**
  - A **material weakness** in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance such that there is a reasonable possibility that material noncompliance with **a type of compliance requirement** of **a federal program** will not be prevented or detected and corrected on a timely basis
  - A **significant deficiency** in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance with **a type of compliance requirement** of **a federal program** that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance

Evaluating the Severity of Deficiencies

- The absence of identified noncompliance does not provide evidence that identified deficiencies in internal control over compliance are not significant deficiencies or material weaknesses
- The severity of a deficiency depends not only on whether actual noncompliance occurred **but also** on the magnitude of the potential noncompliance **and** whether there is a reasonable possibility that the entity's controls will fail to prevent or detect and correct noncompliance that is material in relation to the type of compliance requirement
- The auditor will determine whether deficiencies that affect the same type of compliance requirement or component of internal control collectively result in a significant deficiency or material weakness

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A Simplified Checklist To Determine Whether an Identified Deficiency Is a Material Weakness in Internal Control Over Compliance

(**Note.** If the answer to both of the following is "yes" we have a material weakness by definition)		
Yes	**No**	
☐	☐	Is there a reasonable (i.e., more than remote) possibility that noncompliance with a type of compliance requirement could occur without detection and correction?
☐	☐	Could the noncompliance be material to a type of compliance requirement of a federal program?

Note:

If we did not answer "yes" to both of the above questions but believe that the deficiency is important enough to merit attention by those charged with governance, we would have a significant deficiency in internal control over compliance.

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The AICPA Audit Guide Related to Yellow Book and Single Audits Provides Three Indicators of Material Weaknesses in Internal Control Over Compliance

1	Identification of fraud in the major program of any magnitude on the part of senior program management.
2	Identification by the auditor of material noncompliance in relation to a type of compliance requirement for the period under audit in circumstances that indicate that the noncompliance would not have been detected by the entity's system of internal control.
3	Ineffective oversight by management, or those charged with governance, over compliance with program requirements where the activity is subject to a type of compliance requirement (e.g., lack of adequate review of federal financial reports prior to submission to the grantor).

Exercise 10

John is applying his professional judgment in evaluating the severity of a deficiency in internal control over compliance for a major program and is finding it to be a tough call. **In addition to the items we have discussed, are there any additional considerations that might help John in making his final determination?**

Solution to Exercise 10

- Some additional considerations for John to think through include:
  - The nature of the compliance requirement involved;
  - The importance of the control;
  - The vulnerability of the program and compliance requirement to fraud;
  - The cause and frequency of noncompliance detected due to the deficiency;
  - The subjectivity and complexity involved in meeting the compliance requirement and the level of judgment required in determining noncompliance;
  - The relationship of the control with other controls;
  - The interaction among the deficiencies;
  - The possible future consequences of the deficiency;
  - The program amounts or total of transactions exposed to the deficiency in relation to the compliance requirement; and
  - The level of activity related to the compliance requirement exposed to the deficiency in the current period or expected in future periods

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Exercise 11

Is the following statement True or False?

The auditor's evaluation of control deficiencies is likely to include significant professional judgments that are required to be documented in accordance with AU-C section 230, *Audit Documentation*.

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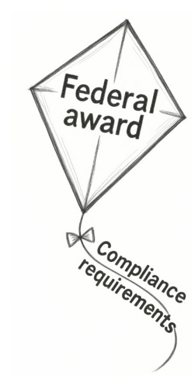
Solution to Exercise 11

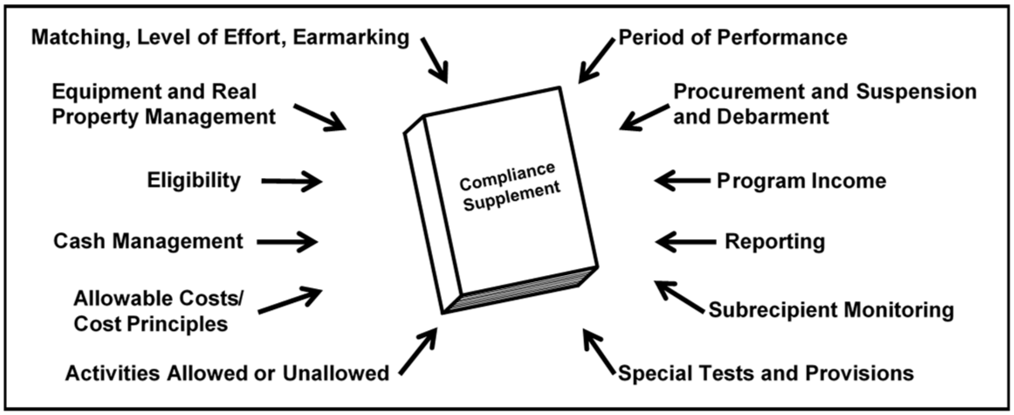
True. The statement on the prior slide appears in the AICPA Audit Guide related to Yellow Book and Single Audits.

The Auditee's Core Responsibilities Related to Compliance

- When auditees receive federal funding, they must follow the rules related to that funding. Stated more formally, the auditee is responsible for complying with federal statutes, regulations, and the terms and conditions of the federal awards it receives



The Compliance Supplement Describes 12 Principal Types of Compliance Requirements



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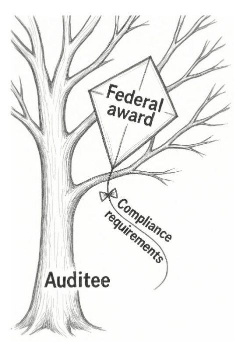
Considering Findings Related to Compliance

- As we have discussed, auditors may determine that a **significant deficiency** or **material weakness** in internal control over compliance exists, in which case they **will report a finding**
- Auditors may also determine that findings related to compliance issues exist that will be reported



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Compliance Findings That Get Reported

- **Material noncompliance related to a major program**
  - Material for the purpose of reporting an audit finding is in relation to **a type of compliance requirement** for a **major program** identified in the Compliance Supplement
- **Known questioned costs** when either known **or** likely questioned costs **are greater than $25,000** for **a type of compliance requirement** for **a major program**
- Known questioned costs greater than $25,000 for a federal program that **is not audited as a major program**

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Exercise 12

In performing tests of compliance, auditors may identify instances of noncompliance. **Could such findings be nonmonetary in nature**?

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Solution to Exercise 12

Yes! Findings may be of a **monetary nature and involve questioned costs** (e.g., an auditee erroneously used program funds for non-program purposes) **or** may be of a **nonmonetary nature and not result in questioned costs** (e.g., a pass-through entity failed to properly monitor a subrecipient).

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What Is **Material Noncompliance** Related to a Major Program?

- §200.516 of the Uniform Guidance for Federal Awards requires that the auditor report as an audit finding:
  - "**Material noncompliance** with the provisions of federal statutes, regulations, or the terms and conditions of federal awards **related to a major program**. The auditor's determination of whether noncompliance with the provisions of federal statutes, regulations, or the terms and conditions of federal awards is material for the purpose of reporting an audit finding is **in relation to a type of compliance requirement for a major program identified in the Compliance Supplement**"
- The lens used by the auditor to evaluate noncompliance will be driven by whether the noncompliance is of a **monetary** or **nonmonetary** nature

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Before Discussing the Evaluation of **Monetary** Noncompliance, Let's Discuss the Definition of **Questioned Cost**

- **Questioned cost** has the meaning given in paragraphs **(1)** through **(3)**
  - **(1)** **Questioned cost** means an amount, expended or received from a federal award, that in the auditor's judgment:
    - (i) Is noncompliant or suspected noncompliant with federal statutes, regulations, or the terms and conditions of the federal award;
    - (ii) At the time of the audit, lacked adequate documentation to support compliance; or
    - (iii) Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances
  - **(2)** The questioned cost amount under (1)(ii) is calculated as if the portion of a transaction that lacked adequate documentation were confirmed noncompliant
  - **(3)** There is no questioned cost **solely** because of:
    - (i) Deficiencies in internal control; or
    - (ii) Noncompliance with the reporting type of compliance requirement (described in the Compliance Supplement) if this noncompliance does not affect the amount expended or received from the federal award

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Evaluating **Monetary** Noncompliance

- When the noncompliance has a monetary nature, the auditor evaluates the noncompliance based on the **known** and **likely questioned costs**
  - **Known questioned costs** mean questioned costs specifically identified by the auditor. Known questioned costs are a subset of **likely questioned costs**
  - **Likely questioned costs** mean the auditor's **best estimate of total questioned costs**, not just the known questioned costs. Likely questioned costs are developed by extrapolating from audit evidence obtained, for example, by projecting known questioned costs identified in an audit sample to the entire population from which the sample was drawn

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Evaluating **Monetary** Noncompliance

- The purpose of estimating **likely questioned costs** is to:
  - Determine whether it is necessary to report a finding (e.g., auditors are required to report **known questioned costs** as a finding when **either** known or **likely questioned costs** are greater than $25,000 for a type of compliance requirement for a major program); **and**
  - Evaluate the effect of questioned costs on the opinion on compliance
- The Uniform Guidance for Federal Awards **does not** require the auditor to report an exact amount or a statistical projection of **likely questioned costs** with related confidence bounds. **The auditor reports only the known questioned costs**
  - If the **known questioned** costs are very small, the auditor **may** indicate in the finding that the likely questioned costs are greater than $25,000 to help the federal agency understand why the finding was reported

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Evaluating **Nonmonetary** Noncompliance

- The auditor may identify instances of noncompliance that are not directly associated with a questioned cost (i.e., noncompliance of a nonmonetary nature)
- In evaluating nonmonetary noncompliance, the auditor uses professional judgment to evaluate the significance of the noncompliance
  - The method of evaluation is influenced by the type of compliance requirement and the audit procedures performed

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Evaluating **Nonmonetary** Noncompliance

- An example of nonmonetary noncompliance could be a pass-through entity that did not monitor its subrecipients (where **subrecipient monitoring** is a direct and material compliance requirement)
- Since the pass-through entity failed to monitor the activity of its subrecipients, this noncompliance would likely be material in relation to subrecipient monitoring (i.e., it would meet the definition of a reportable audit finding)

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Exercise 13

Is the following statement True or False?

The auditor's evaluation of instances of noncompliance is likely to include significant professional judgments that are required to be documented in accordance with AU-C section 230, *Audit Documentation*.

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Solution to Exercise 13

True. The statement on the prior slide appears in the AICPA Audit Guide related to Yellow Book and Single Audits.

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Exercise 14

Emma Terial is evaluating the results of compliance testing for a major program. The major program was subject to six different types of direct and material compliance requirements. For the **reporting** type compliance requirement, Emma found some material noncompliance. However, for the other five types of compliance requirements tested, Emma found no problems. **Can Emma ignore reporting the material noncompliance in reporting, as complying with five out of six compliance requirements is not too bad?**

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Solution to Exercise 14

No. For the purpose of reporting an audit finding, the Uniform Guidance for Federal Awards describes the auditor's determination of whether noncompliance is material as being in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.

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Exercise 15

Bill is performing compliance testing. In testing for **activities allowed or unallowed**, he finds that certain equipment has been charged to Program X. However, the grant agreement for Program X does not allow for program funds to be spent on equipment. **Does Bill need to consider whether this noncompliance also represents an internal control deficiency?**

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Solution to Exercise 15

Yes. Bill's observance of noncompliance is also evidence about the auditee's ineffective internal control over that type of compliance requirement (as the auditee's controls did not prevent or detect and correct the noncompliance). Thus, Bill needs to consider whether this noncompliance also represents an internal control deficiency. Audit findings (e.g., internal control findings, compliance findings, questioned costs) that relate to the same issue are presented as a single finding (typically indicated using headers to the finding).

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Although Somewhat Rare, in Addition to Control and Compliance Findings, the Following Findings Also Get Reported…

- The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion
  - This must be included unless the circumstances are otherwise reported as audit findings in the SFQC
- Known or likely fraud affecting a federal award
- Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresented the status of any prior audit finding

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Now That We Know What To Report, **How Do We Report It?**

- As we have discussed, under the Uniform Guidance for Federal Awards, auditors are required to report:
  - **Significant deficiencies** and **material weaknesses** in internal control over major programs;
  - **Material noncompliance** related to a major program;
  - **Known questioned costs** when either known or likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program;
  - Known questioned costs greater than $25,000 for a federal program that is not audited as a major program;
  - The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion;
  - Known or likely fraud affecting a federal award; and
  - Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresented the status of any prior audit finding

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Now That We Know What To Report, **How Do We Report It?**

- Due to its emphasis on transparency, the Uniform Guidance for Federal Awards provides requirements regarding **how** we report the federal award findings discussed on the prior slide
  - We will soon also see **where** these findings get reported [i.e., the schedule of findings and questioned costs (SFQC)]
- The requirements for **how** we report federal award findings take the Yellow Book requirements we saw earlier and tweak/expand them

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The Development of Certain Required Elements of Findings

- In reporting a **federal award finding**, auditors will include:
  - The federal program and specific federal award identification, including the Assistance Listing title and number, federal award identification number and year, the name of the federal agency, and the name of the applicable pass-through entity
    - The official title of a federal program is the title found on SAM.gov
    - Federal award information is usually available on the award documents when the award is received directly from a federal agency. When an award is received from a pass-through entity, the auditor may check that the Assistance Listing title on the award document is the official title and not a title generated by the pass-through entity. When information such as the Assistance Listing title and number or federal award identification number is unavailable, the auditor will provide the best information available to describe the federal award
    - When the finding relates to more than one award, the auditor lists the program identification information for each individual award to which the finding pertains. If there are multiple awards, a table may be useful. When a finding relates to only a subset of awards in a cluster of programs, the auditor lists the program identification information for each individual award to which the finding relates. When a finding relates to the entire cluster of programs, the auditor lists the program identification information for all awards in the cluster of programs

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The Development of Certain Required Elements of Findings

- In reporting a **federal award finding**, auditors will include:
  - The **criteria** or specific requirement for the audit finding (e.g., the specific federal statute, regulation, or term and condition of the federal award). The criteria or specific requirement provides a context for evaluating evidence and understanding findings. The criteria should generally identify the required or desired state or expectation with respect to the program or operation
    - Quite often, the Compliance Supplement (in Parts 3–6) will provide a Code of Federal Regulations (CFR) reference or reference to a law, which can serve as the required citation in the finding
    - **2 CFR 200.303 is often cited in internal control findings, as it states that non-federal entities must establish, document, and maintain effective internal control over federal awards**
    - If the Compliance Supplement does not provide a legal citation for a compliance requirement, then the grant agreement may be a source to determine the appropriate underlying law or regulation
    - Other common sources include Subpart D, “Post Federal Award Requirements” (administrative) and Subpart E, “Cost Principles,” of the Uniform Guidance for Federal Awards

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The Development of Certain Required Elements of Findings

- In reporting a **federal award finding**, auditors will include:
  - The **condition** found, including facts that support the deficiency identified in the audit finding
    - Try to clearly describe the nature and severity of the situation
    - For a compliance finding, the condition describes what the entity did or failed to do
    - For a control finding, the condition describes the missing or deficient control
    - When the finding relates to more than one award, a table may be useful to provide sufficient information for each federal agency
  - A statement of **cause** that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action

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The Development of Certain Required Elements of Findings

- In reporting a **federal award finding**, auditors will include:
  - The possible asserted **effect** to provide sufficient information to the auditee and federal agency or pass-through entity to permit them to determine the cause and effect to facilitate prompt and proper corrective action. A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria
  - The identification of **known questioned costs** by applicable Assistance Listing number(s) and federal award identification number(s) and how these questioned costs were computed. When the finding relates to more than one award, a table may be useful to provide sufficient information for each federal agency
  - When there are known questioned costs, but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported

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The Development of Certain Required Elements of Findings

- In reporting a **federal award finding**, auditors will include:
  - Information to provide proper **perspective** or **context** for evaluating the prevalence and consequences of the audit finding (e.g., whether the audit finding represents an isolated instance or a systemic problem). Where appropriate, instances identified will be related to the universe and the number of cases examined and will be quantified in terms of dollar value. In addition, the audit finding should indicate whether the sampling was a statistically valid sample
  - The identification of whether the audit finding is a repeat of a finding in the immediately prior audit. The audit finding will identify the applicable prior year audit finding reference numbers in these instances

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The Development of Certain Required Elements of Findings

- In reporting a **federal award finding**, auditors will include:
  - **Recommendations** to prevent future occurrences of the deficiency identified in the audit finding; and
  - **Views of responsible officials** of the auditee
    - As a reminder, the Uniform Guidance for Federal Awards requires auditees to prepare a separate corrective action plan for current-year findings. The AICPA Audit Guide related to Yellow Book and Single Audits discusses that if the corrective action plan is fully developed prior to the completion of the audit, there is nothing to preclude the auditor from referring directly to the corrective action plan in addressing the views of responsible officials in an audit finding (e.g., by stating, “See corrective action plan”). However, the AICPA does not recommend this approach and instead suggests that management provide a summary of the response provided in the corrective action plan to be included as the views of responsible officials
  - Findings need to be assigned a reference number consisting of the fiscal year being audited as the first four digits of each reference number, followed by a three-digit numeric sequence (e.g., 2026-001, 2026-002, etc.)

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Exercise 16

As we have seen, there are several elements to federal award findings. **When writing findings, must the auditor separately label each finding element?**

Solution to Exercise 16

No. However, the AICPA Audit Guide related to Yellow Book and Single Audits recommends that labels (sub-headers) be used for each finding element to enhance the readability of the finding and to demonstrate that all finding elements have been included. Note that, sometimes, auditors combine the **condition** and **perspective/context** elements. If so, the subheading would ideally reflect that (e.g., **condition/context** or **condition and perspective**).

Where Audit Findings Get Reported

- To this point in the course, we have discussed:
  - The types of federal award findings that get reported under the Uniform Guidance for Federal Awards; **and**
  - The elements of a federal award finding
- We are now ready to discuss **where** auditors present findings in single audit reporting. **The reporting for a single audit has multiple components…**

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Key Aspects of Single Audit Reporting

- Under the Uniform Guidance for Federal Awards, the auditor reporting will include:
  - An opinion on the financial statements under GAAS and the Yellow Book
    - **This would also include the "in relation to" reporting on the Schedule of Expenditures of Federal Awards (SEFA)**
  - The Yellow Book reporting on internal control over financial reporting and on compliance and other matters
  - **The Uniform Guidance for Federal Awards reporting on compliance for each major federal program and on internal control over compliance**
  - **The schedule of findings and questioned costs (SFQC)**
- The AICPA (www.aicpa.org/gaqc) provides critical guidance, options, and illustrations related to each of the reporting elements discussed above

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Key Aspects of Single Audit Reporting

- As we discussed on the prior slide, as part of reporting on a single audit, the auditor will issue a report on compliance for each major federal program and on internal control over compliance
  - This reporting does not contain the detail finding elements we have been discussing but instead refers to the findings that are fully presented in the accompanying **schedule of findings and questioned costs (SFQC)**

Report of Independent Auditors on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance Required by the
Uniform Guidance

with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a significant deficiency.

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The SFQC: **Where** Audit Findings Get Reported

- In a single audit, the detailed audit findings are presented in the SFQC
- The SFQC consists of three sections:
  - **Section I** – A summary of the auditor's results, including:
    - Information about how the audit went;
    - Identification of the major programs audited; and
    - Certain key aspects of the major program determination process
  - **Section II** – Any reportable Yellow Book financial statement findings
  - **Section III** – Any reportable federal award findings

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Example SFQC for an Entity Without Any Findings

Nonprofit J
Schedule of Findings and Questioned Costs
Year Ended June 30, 202X

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified opinion**

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes _X_ No
- Significant deficiency(ies) identified? ___ Yes _X_ None Reported

Noncompliance material to financial statements noted? ___ Yes _X_ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ Yes _X_ No
- Significant deficiency(ies) identified? ___ Yes _X_ None Reported

Type of auditor's report issued on compliance for major federal programs: **Unmodified opinion**

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ Yes _X_ No

Identification of major federal programs: Assistance Listing 17.264 National Farmworker Jobs Program

Dollar threshold used to distinguish between type A and type B programs: $1,000,000

Auditee qualified as low-risk auditee? ___ Yes _X_ No

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None Reported.

III. Findings and Questioned Costs for Federal Awards

None Reported.

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Section I of the SFQC

- Section I of the SFQC provides a summary of the auditor's results, including:
  - The type of opinion issued on the financial statements;
  - Whether the Yellow Book audit identified any significant deficiencies, material weaknesses, or material noncompliance at the financial statement level;
  - Whether the compliance audit identified any significant deficiencies or material weaknesses in the internal control over major programs;
  - The type of report the auditor issued on compliance for major programs;
  - Whether the audit disclosed any reportable findings;
  - The major programs audited;
  - The threshold used to distinguish between type A and type B programs; and
  - Whether the auditee qualified as a low-risk auditee

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Section II of the SFQC

- Section II of the SFQC reports the **Yellow Book findings related to the financial statements**, including:
  - **Significant deficiencies** and/or **material weaknesses**;
  - **Material noncompliance**; and
  - **Material fraud**
- The Yellow Book findings should include all the elements required by the Yellow Book (i.e., criteria, condition, cause, effect or potential effect, recommendation, and views of responsible officials)
- Findings need to be assigned a reference number consisting of the fiscal year being audited as the first four digits of each reference number, followed by a three-digit numeric sequence (e.g., 2026-001, 2026-002, etc.)

Section III of the SFQC

- Section III of the SFQC reports the **federal award findings**, including:
  - **Significant deficiencies** and/or **material weaknesses in internal control over major programs**;
  - **Material noncompliance related to a major program**;
  - **Known questioned costs** when either known **or** likely questioned costs **are greater than $25,000** for **a type of compliance requirement** for **a major program**;
  - Known questioned costs greater than $25,000 for a federal program that **is not audited as a major program**;
  - The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion;
  - Known or likely fraud affecting a federal award; and
  - Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding

Exercise 17

During the audit, Elaine identified noncompliance related to a major program that was also material to the financial statements. **Should Elaine report the finding in both sections II and III of the SFQC?**

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Solution to Exercise 17

Yes. Findings that relate to both the financial statements and federal awards will be reported in both sections II and III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section. For example, a finding of noncompliance with a federal program statute that is also material to the financial statements generally would be reported in detail in section III. Section II would then include a summary identification of the finding and a reference back to the specific finding in section III.

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Moving From Finding Theory to Actual Application

- Having discussed what gets reported, how it gets reported, and where it gets reported, let's look at some actual findings reported by auditors…

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Federal Award Finding Classified by the Auditor as a Significant Deficiency That Is a Repeat Finding

2025-001 – Reporting (Significant Deficiency in Internal Control Over Compliance) (Repeated and Modified – Original 2024-001)

Federal Assistance Listing Number	*Program Name*	*Award Numbers*	*Award Year*
93.676	Unaccompanied Children Program	[redacted]	2025 2025

Criteria – Federal regulations and grant terms and conditions of the programs require annual special reports to be submitted to the awarding agencies. In accordance with Uniform Guidance 2 CFR 200.303 the Organization should establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statues, regulations, and the terms and conditions of the federal awards. Additionally, maintaining effective internal controls require that the Organization should submit those annual special reports on or before due the due date.

Condition and context – The semi-annual, and quarterly reports SF-425 required under the program was submitted after the due date.

Cause – The Organization does not have sufficient internal controls over their grant reporting process to ensure that the required reports are submitted on or before the due date.

Effect – There is an increased likelihood of noncompliance over reporting requirements.

Questioned costs – There were no questioned costs associated with this finding.

Repeat finding – This finding was previously reported as finding 2024-001.

Recommendation – We recommend that the Organization improve the controls over reporting functions which includes tracking the deadlines for all the reporting requirements.

Views of responsible officials – [redacted] maintains a calendar of reports due and will add the following steps to their regular reporting process, first Grant Accountants will review all new grant awards for reporting schedules at their inception to ensure that off-cycle reporting requirements are included in the calendar, and Grant Accountants will review that the reports available in the [redacted] system monthly and include all known due reports. The Grants Manager will review the calendar monthly to ensure that it is maintained with accurate information and the reporting steps are being addressed.

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Federal Award Finding Classified by the Auditor as a Significant Deficiency From a Sampling Procedure

Reference Number	Finding
2025-001	**Student Financial Assistance Cluster** **Assistance Listing Number 84.268 Federal Direct Student Loans and 84.063 Federal Pell Grant Program** **U.S. Department of Education Program Year 2024-2025**

Criteria or Specific Requirement – Disbursements to or on behalf of students, 34 CFR Section 668.164(h)(2)

Condition – Students did not receive refunds within the required timeframe.

Questioned Costs – N/A

Context – Seven out of 25 students tested received their credit balance refund more than 14 days after the credit balance was generated. All but one of these students received their refund within 16 days of the generation of the credit balance. Our sample was not, and was not intended to be, statistically valid.

Effect – Noncompliance with federal regulations requiring timely disbursement of credit balance refunds

Cause – Due to the high volume of credit balance refunds being processed, the University encountered operational constraints that prevented all refunds from being generated within the designated 14-day timeframe.

Indication as a Repeat Finding – N/A

Recommendation – To ensure timely refunds of student credit balances, the University should implement a control that flags any refund not processed before the end of the 14-day timeframe for immediate review and escalation. Additionally, establish a monitoring report to track refund timeliness weekly and reinforce accountability for processing within the required timeframe.

Views of Responsible Officials and Planned Corrective Actions – Management agrees with the finding and the Director of Student Financial Services and the Assistant Director of Student Financial Services will oversee the corrective action plan. As part of this process, they will review the daily Student Refund Report to identify and assist the personal financial counselor in expediting student refunds. The Student Financial Services team will also review and retrain on the proper procedures for processing refunds within the required time frame.

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Federal Award Finding Classified by the Auditor as a Significant Deficiency Related to Allowable Costs

Reference Number	Finding	Questioned Costs
2025-001	**Assistance Listing Number, Federal Agency, and Program Name** - 97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters)	None

Federal Award Identification Number and Year - N/A, 2025

Pass-through Entity - N/A

Finding Type - Significant deficiency

Repeat Finding - No

Criteria - Costs were necessary and reasonable for the performance of the Federal award and allocable under the principles of 2 CFR Part 200, Subpart E.

Condition - [redacted] did not have adequate controls in place to detect duplicate expenses that were submitted to the awarding agency prior to final closeout of the grant.

Questioned Costs - None

If questioned costs are not determinable, description of why known questioned costs were undetermined or otherwise could not be reported - N/A

Identification of How Questioned Costs Were Computed - N/A

Context - Certain expense amounts reported to [redacted] were duplicates and were detected by [redacted] prior to final submission and closeout.

Cause and Effect - The Organization did have a control in place to detect duplicate invoices prior to submission to [redacted]; however, that control only detected one duplicate, and other duplicates were not detected by management and were submitted. [redacted] detected the duplicates before final closeout; therefore, these duplicates were ultimately not included in the final request for reimbursement.

Recommendation - We recommend [redacted] implement controls to ensure all expenses are allowable and are not duplicated or double counted in accordance with the appropriate guidelines.

Views of Responsible Officials and Corrective Action Plan - The Organization coordinated with [redacted] to correct duplicate line items in grant cost summary, and the cost summary was corrected before closing out grant. Management has implemented controls in the future to prevent duplicate invoices from being submitted.

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Federal Award Finding Classified by the Auditor as a Significant Deficiency Related to Allowable Costs

<u>Finding 2025-001: Allowable Costs/Cost Principles – Improper expenditure recognition</u>
Federal Program Name: [redacted]
Assistance Listing Number: 84.367A
Federal Agency Name: U.S. Department of Education
Passed-Through Agency Name: [redacted]
Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or Specific Requirement
Per 2 CFR 200.302 and 200.303, management is responsible for ensuring the accuracy and completeness of all financial records and related information, as well as for establishing and maintaining effective internal controls over grant reporting and compliance.

Condition
During the current fiscal year, grant expenditures initially included $291,666 for services scheduled to be provided in the subsequent fiscal year.

Cause
In preparing its financial records for the year ended June 30, 2025, the District did not identify expenditures recorded in the incorrect fiscal year. The failure to detect these errors in a timely manner indicates that closing procedures—specifically the monitoring and review of financial information—were not performed effectively.

Effect or Potential Effect
The District's internal control system did not prevent, or timely detect and correct, misstatements in its financial records. Ineffective monitoring and closing procedures increase the risk that errors or irregularities may occur and remain undetected.

Questioned Costs
None

Context or Perspective Information
Improper recognition of expenditures could result in misstatements reported to awarding agencies and inaccuracies in the Schedule of Expenditures of Federal Awards, potentially affecting the determination of major programs subject to single audit testing. The expenditures identified above were ultimately removed from current year activity and were excluded from the year-end reimbursement request.

Recommendation
We recommend that the District provide additional training to staff responsible for preparing year-end grant expenditure reports to strengthen accuracy.

Views of Responsible Officials and Planned Corrective Actions
See corrective action plan

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Federal Award Finding Classified by the Auditor as a Significant Deficiency Related to Reporting

<u>2025 – 003 Child Nutrition Cluster Reporting Segregation of Duties</u>

Federal Agency: U.S. Department of Agriculture

Federal Program Name: Child Nutrition Cluster

Assistance Listing Number: 10.553 and 10.555

Federal Award Identification Number and Year: N/A

Pass-Through Agency: [redacted]

Pass-Through Number(s): [redacted]

Award Period: July 1, 2024 – June 30, 2025

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction. Review of the reimbursement request and supporting documentation by someone other than the preparer prior to submitting the request for reimbursement is an internal control intended to prevent or decrease the occurrence of errors.

Condition: For four of six reports tested, here was no review of the monthly reports by someone other than the preparer. Accordingly, this does not allow for a proper segregation of duties for internal control purposes over reporting compliance requirements.

Questioned costs: None

Context: While performing audit procedures, it was noted that there was no review the reimbursement requests before submission to verify accuracy of meal counts reported against supporting documentation while the food service director was out for part of the year.

Cause: The food service director was out for part of the year and during this time, claims were submitted to [redacted] but not provided to the finance director for review prior to submitting the claims.

Effect: Errors in the monthly reporting could be made and not detected prior to submission resulting in an incorrect reimbursement amount.

Repeat Finding: No.

Recommendation: We recommend that the District review its internal controls and implement a procedure to ensure all reports required under the grant have a designated reviewer that is different from the individual responsible for preparing, even when there are gaps of coverage in preparer and reviewer positions, and that the review and approval happens prior to submitting the reports to the granting agency.

Views of responsible officials: There is no disagreement with the audit finding.

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Federal Award Finding Classified by the Auditor as a Significant Deficiency and Material Noncompliance Related to Subrecipient Monitoring

Reference Number	Finding
2025-001	**Assistance Listing Number, Federal Agency, and Program Name** - 20.507, Department of Transportation, Federal Transit Cluster
	Federal Award Identification Number and Year - [redacted]
	Pass-through Entity - N/A
	Finding Type - Significant deficiency and material noncompliance with laws and regulations
	Repeat Finding - No
	Criteria - Per the Uniform Guidance at 2 CFR 200.332, the pass-through entity [redacted] must monitor the activities of a subrecipient as necessary to ensure that the subawards comply with federal statutes, regulations, and the terms and conditions of the subaward. The pass-through entity is responsible for monitoring the overall performance of a subrecipient to ensure that the goals and objectives of the subaward are achieved.
	Condition - The Authority did not provide sufficient evidence that there was adequate monitoring of subrecipients.
	Questioned Costs - None
	If Questioned Costs are not Determinable, Description of Why Known Questioned Costs Were Undetermined or Otherwise Could not be Reported - Not applicable
	Identification of How Questioned Costs Were Computed - Not applicable
	Context - It was identified in the 2025 triennial review that the Authority's procedures and documentation of subrecipient oversight was not adequate. The Authority had two subrecipients during fiscal year 2025, and one of the subrecipients was not adequately monitored based on the funding received.
	Cause and Effect - The Authority did not provide sufficient evidence for adequate monitoring of subrecipients during the triennial review.
	Recommendation - We recommend the Authority strengthen subrecipient procedures and maintain evidence that these procedures were performed according to schedule.
	Views of Responsible Officials and Corrective Action Plan - The Authority is in agreement with this finding. The Authority has reviewed and corrected procedures related to monitoring subrecipients.

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Federal Award Finding Classified by the Auditor as a Material Weakness and Noncompliance Related to Allowable Costs and Cash Management

Finding 2024-002 – Activities Allowed/Allowable Costs & Cash Management

Type of Finding: Material weakness over controls over compliance and noncompliance
Federal Agency: U.S. Department of Treasury & U.S. Department of Health and Human Services
Federal Program: Coronavirus State and Local Fiscal Recovery Funds – ALN 21.027 and Refugee and Entrant Assistance State/Replacement Designee Administered Program – ALN 93.566

Criteria
An organization should have a strong system of internal control that includes review of general disbursement for proper classification and allowability in accordance with the terms and conditions of the award agreements and federal regulations. An organization should also have controls in place that minimizes the time elapsing between the transfer of federal funds and the disbursement by the organization for direct program or project costs.

Condition and Context
During the year September 30, 2024 a dispute arose between the Organization and its landlord. After consulting with a lawyer, the Organization stopped paying rent to the landlord and instead deposited the monthly rent money into its own separate cash account. The Organization still drew down the amount of the rental costs from the above funding sources to make the monthly deposits into the separate cash account. After year end the Organization and landlord settled their dispute which included the landlord waiving its right to the escrowed rent.

Questioned Costs
For the year ended September 30, 2024 federal funds of $247,379 and $56,737 were drawn down from assistance listing numbers 93.566 and 21.027, respectively, for rent expense that ultimately was never incurred.

Cause
The organization drew down amounts that for costs it had not incurred at the time and would ultimately not incur.

Effect or Potential Effect
Grants were overcharged for rental payments that were never made.

Recommendation
We recommend that management implement procedures to ensure expenditures implement controls that ensure grants are only drawn down for costs that have been incurred.

Views of Responsible Officials and Planned Corrective Action
The organization acknowledges that unallowable rent costs were claimed and payment received under government grants and contracts resulting in overstating revenues for FY24, and that adjustments were necessary to the financial statements to correct the resulting deficiencies. As indicated, however, this overstating was due to the unique situation that existed as a result of the landlord's breaking the organization's lease, suddenly and without notice. Rent costs were claimed for as long as the organization was liable for the rent. After the liability was forgiven by the landlord, rent costs were returned to the funders.

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Exercise 18

The following slide contains a federal award finding for an NFP. The auditor qualified the opinion on the major program in part because of the finding and also classified the finding as a material weakness. **Do you see anything that perhaps could be improved in the write-up of the finding?**

Exercise 18

2024-006

Activities Allowed and Unallowed
Allowable Cost / Cost Principles
Reporting

Condition: During our testing of expenditures charged to the COVID-19 Coronavirus State and Local Fiscal Recovery Funds program, we identified $135,104 in costs that were unallowable under the terms of the grant agreement and Uniform Guidance. These included disbursements to subgrantees that were considered conflicts of interest ($73,353), disbursements to subgrantees not included in approved budget ($12,897), and other disallowed costs determined by the County ($48,854). These costs were charged to the federal grant and reimbursed.

Criteria: According to 2 CFR 200.403-405, costs charged to federal awards must be necessary, reasonable, allocable, and allowable under the grant terms and Uniform Guidance. In accordance with Uniform Guidance 2 C.F.R. Part 200.318(i), non-Federal entities must maintain records sufficient to detail the history of procurement.

Effect: Unallowable costs were charged to the federal award, resulting in a potential questioned cost of $552,709. This will lead to repayment of funds to the County and indicates a weakness in the grantee's cost review and compliance process.

Cause: [redacted] did not have sufficient internal controls in place to ensure that all expenditures charged to federal programs were properly reviewed for allowability under Uniform Guidance and specific grant terms. Program staff approved these costs without adequate understanding of federal cost principles, and the finance department did not perform a secondary review before reimbursement requests were submitted.

Recommendation: Reimburse the County for the unallowable costs. Implement or strengthen internal controls over cost allowability, including staff training, implementation of formal pre-approval process, and a documented review checklist prior to reimbursement submission related to federal programs.

Management Response: Management concurs with this finding. Management will strengthen internal controls surrounding expenditures of federal awards; specifically, cost allowability in the future. This action was implemented immediately upon receipt of the comment from our auditors.

Solution to Exercise 18

- This would not have been the easiest finding to write. The author's attention would first go to the identification of questioned costs. The Uniform Guidance for Federal Awards requires that audit findings include:
  - The identification of known questioned costs by applicable Assistance Listing number(s) and federal award identification number(s) and how these questioned costs were computed
- Under AICPA guidance and industry practice, questioned costs are typically broken out as a separate element in the finding
  - In this case, the auditor appears to have combined the **condition** and **questioned costs** elements. In doing so, the auditor potentially left some unanswered questions (e.g., was the $135,104 the known questioned costs?)

Solution to Exercise 18

- The author would suggest the following:
  - Break questioned costs out as a separate element of the finding;
  - When reporting questioned costs, specifically identify the **known questioned costs** and how these questioned costs were computed; and
  - Remember that while the auditor is **not required** to report an **estimate** of the likely questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the finding
- In this case, being a little clearer in presenting the known questioned costs and providing more information regarding the prevalence of the finding could have added clarity

Case Study

- Pretend that you are auditing a major program (ALN 14.228 Community Development Block Grant)
- When you look at the Compliance Supplement's Part 2 Matrix of Compliance Requirements, you see that Special Tests and Provisions has a "Y," indicating the compliance requirement typically has a direct and material effect on ALN 14.228
- In reviewing the Compliance Supplement's Part 4 Agency Program Requirements for ALN 14.228, you see discussions of 24 CFR Part 75 Section 3 and determine that the auditee is required to report certain information to a pass-through entity on a quarterly and annual basis

Case Study

- In performing your control and compliance testing, you discover that while the grant administrator prepared and submitted the required reports, there was no review of the reporting before submission
- You believe that a significant deficiency in internal control over compliance exists due to one person preparing and submitting the reports without review
- **What are some key items you would focus on in writing this finding?**

Solution to Case Study

- The author would suggest the following:
  - Ensure the finding identifies the program the finding is related to (so federal agencies, pass-through entities, and others know the program involved)
  - Write the **criteria** element in a manner where readers can specifically see what should have been there (in this case, proper controls over reporting required due to HUD Section 3 regulations at 24 CFR Part 75)
  - Succinctly describe in the **condition** element what the problem was (in this case, the lack of a secondary review of the reports)
  - In the **cause** and **effect** elements, briefly describe why the control deficiency happened and what could potentially occur due to the missing control
  - Ensure the finding identifies whether there were any questioned costs

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Solution to Case Study

- The author would suggest the following:
  - Try to develop the **recommendation** element so that it briefly provides some actual suggestions to improve the issue (i.e., as opposed to just generically saying the client should improve controls)
  - Ensure the **views of responsible officials** element is included
- **The following slide shows how an auditor wrote a finding for the scenario we have been discussing**

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Solution to Case Study

Finding 2024-002: Insufficient Documentation of Management Review of Section 3 Quarterly and Annual Reporting

Audit Finding: Significant Deficiency

Federal Program: Community Development Block Grant [redacted] (Assistance Listing 14.228)

Compliance Requirement: Reporting and Special Tests and Provisions – Section 3 Requirements

Criteria: In accordance with Title 2 of the *Code of Federal Regulations* (2 CFR) § 200.303, the City must establish and maintain effective internal controls over federal awards that provide reasonable assurance of compliance with federal statutes, regulations, and the terms and conditions of the award. Additionally, 2 CFR § 200.328 requires the City to ensure that reports submitted to the pass-through entity are accurate, complete, and supported by adequate review and oversight. The U.S. Department of Housing and Urban Development's (HUD) Section 3 regulations at 24 CFR Part 75 require recipients to prepare and submit quarterly and cumulative annual Section 3 reports documenting efforts to provide employment, training, and contracting opportunities to low- and moderate-income persons and businesses within the project area.

Condition: The City's grant administrator is responsible for preparing and submitting the required quarterly and annual Section 3 reports to the [redacted] on behalf of the City. However, there is no documentation demonstrating that City management reviews or approves these reports prior to and after submission.

Cause: The City has not established procedures requiring City management to review and document approval of the Section 3 reports prepared and submitted to the [redacted]

Effect: Without documentation of City management review and approval of the Section 3 reports prepared and submitted by the grant administrator, there is an increased risk that reports submitted to the pass-through entity may be inaccurate, incomplete, or not fully compliant with federal reporting requirements.

Questioned Costs: None noted.

Recommendation: The City should strengthen internal controls over federal reporting by establishing and documenting procedures to ensure City management reviews and approves all Section 3 reports prepared and submitted by the grant administrator. Evidence of this review, such as sign-offs or approval correspondence, should be retained in the grant files to demonstrate compliance with Uniform Guidance and HUD Section 3 reporting requirements.

View of Responsible Officials: Management concurs with the recommendation. Please refer to the Corrective Action Plan for additional details.

Exercise 19

If an auditee is late in submitting its reporting package and data collection form to the FAC, **should the auditor report a finding**?

Solution to Exercise 19

- 200.512 of the Uniform Guidance for Federal Awards states that:
  - The audit, the data collection form, and the reporting package must be submitted within 30 calendar days after the auditee receives the auditor's report(s) or nine months after the end of the audit period (whichever is earlier)
- Due to the above, **some auditors believe that late submission of the reporting package and data collection form is a finding**
- When auditors do report a finding, there is a great deal of variance in how they classify the finding
  - The author's experience has been that, when a finding is reported, quite often it is classified as a significant deficiency (sometimes in tandem with a compliance finding). The author has certainly seen cases where a material weakness was reported (also sometimes in tandem with a compliance finding). The author occasionally has seen it reported solely as a compliance finding

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Solution to Exercise 19

- In reviewing the "acceptance date" and "audit year" columns for submitted audits at www.fac.gov, **it is also apparent that other auditors do not consider late submission to be a reportable finding**
- Some auditors believe that late submission may not need to be reported
  - Late submission is very apparent to federal agencies and pass-through entities due to the above dates appearing on the FAC website
  - Late submission automatically results in a penalty to the auditee (i.e., loss of low-risk auditee status), so it already beckons corrective action by the client

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Solution to Exercise 19

- In developing this course, the author reached out to the National Single Audit Coordinators for two of the larger federal agencies to get their take on whether late submission should typically be reported as a finding. Their responses were:
  - "I would not expect an auditor to report a finding because the late submission is apparent to the federal agencies by the submission date at fac.gov, and the auditee is already going to lose low-risk auditee status"
  - "The determination on whether to report a finding in this situation is based on auditor judgment given the circumstances. Factors that are considered are the frequency of the late filings and the reason for the missed filing date and how late it is when filed. Auditors should also consider whether the underlying cause would create a required finding according to auditing standards"

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Solution to Exercise 19

- In the author's opinion, the decision of whether and how to report a late submission finding is indeed dependent upon professional judgment and the facts and circumstances involved. For example:
  - NFP X was uncharacteristically a week late in submitting its single audit due to key personnel being out at year-end and during the audit (not a reported finding)
  - NFP Y was characteristically a month late in submitting its single audit, as the auditee is consistently slow in closing its year-end (significant deficiency)
  - NFP Z was six months late in submitting its single audit due to severe problems in closing its year-end and preparing the SEFA (material weakness)

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What Peer Reviewers Look for When Reviewing Federal Award Findings

- Peer reviewers will be looking at single audit engagement(s) during peer review
- The checklists used by peer reviewers are available at the AICPA website: https://www.aicpa-cima.com/resources/article/peer-review-program-manual-prpm
- The following excerpt is from a portion of the findings section of a recent checklist, highlighting the finding elements that reviewers are looking for in the reporting of findings

What Peer Reviewers Look for When Reviewing Federal Award Findings

Audit Findings:

Are the federal award findings presented in sufficient detail and clarity as to report the following? [2 CFR 200.516(b); AAG-GAS 13.42–.44] SA123

- Federal program and specific federal award identification, including the Assistance Listing program title and number, federal award identification number and year, name of federal agency, and name of the applicable pass-through entity
- Criteria (including a statutory, regulatory, or other citation)
- Condition
- A statement of cause that identifies the reason or explanation, the possible asserted effect
- Questioned costs (identified by applicable Assistance Listing number(s) and applicable federal award identification number(s), including how they were computed)
- Perspective (the auditor should report whether the sampling was a statistically valid sample)
- Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, any applicable prior year audit finding number
- Recommendations and views of responsible officials

Does the Schedule of Findings and Questioned Costs include all findings and questioned costs identified in the audit documentation which met any of the conditions identified in the Uniform Guidance? [2 CFR 200.516 (a)(1–7); AAG-GAS 13.39–.41] (The reviewer should read the management letter to ensure that no significant deficiencies, material weaknesses, or questioned costs are reported only in the management letter when they should have been reported in either the Yellow Book report or the single audit compliance report.) SA124

What Peer Reviewers Look for When Reviewing Federal Award Findings

- Views of responsible officials of the auditee. [2 CFR 200.516(b)(10)] Auditor's report should disclaim responsibility on views of responsible officials or state why if the view is not included. [AAG-GAS 13.43]

Note: In addressing the views of responsible officials in an audit finding, the auditor may reference or summarize the corrective action plan. However, because the corrective action plan is an auditee responsibility, and is outside the scope of the single audit, as a best practice, the AICPA Audit Guide Government Auditing Standards *and Single Audits*, as of April 1, 2023, suggests the auditor not refer to the corrective action plan when providing the views of responsible officials in an audit finding. Instead, the auditor may provide management's written response or a summary of management's oral response to the finding.

Does each audit finding in the SFQC include a reference number in the format meeting the requirements of the data collection form (DCF) submission required by 2 CFR 200.512(b) (for example, findings identified and reported in the audit of fiscal year 20X1 would be assigned reference numbers 20X1-001, 20X1-002, and so forth)? [2 CFR 200.516(c); AAG-GAS 13.46] SA144 ☐ ☐ ☐ ______

What Federal Agencies Look for When Reviewing Federal Award Findings

- Federal agencies may select single audits for desk reviews
- Desk reviews are essentially remote reviews of the submission to the Federal Audit Clearinghouse
- The checklists used by the federal agencies are available at: https://www.ignet.gov/content/manuals-guides
- The following excerpt is from a portion of the findings section, highlighting that reviewers are looking for the core elements of a finding that we have discussed

What Federal Agencies Look for When Reviewing Federal Award Findings

106	**Presentation of the Audit Findings**						
107	**DR-16**	Are the Federal findings presented in sufficient detail with the following information:					
108	**DR-16a**	A reference number for each finding in the format meeting the requirements of the data collection form submission?	2 CFR 200.516(c)				
109	**DR-16b**	Federal program and specific Federal award identification, including the Assistance Listing title and number, Federal award identification number and year, name of Federal agency, and name of applicable pass-through entity. When information such as the Assistance Listing title and number or Federal award identification number is not available, the auditor must provide the best information available to describe the Federal award. *[Note: The finding may refer to the award information presented in the SEFA, as long as the SEFA contains all of the information identified in DR-9.]*	2 CFR 200.516(b)(1)				
110	**DR-16c**	The criteria or specific requirement upon which the audit finding is based, including the Federal statutes, regulations, or the terms and conditions of the Federal awards?	2 CFR 200.516 (b)(2); GAS 6.17, .25				
111	**DR-16d**	The condition found, including facts that support the deficiency identified in the audit finding?	2 CFR 200.516 (b)(3); GAS 6.17, .26				
112	**DR-16e**	A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.	2 CFR 200.516 (b)(4); GAS 6.17, .27				
113	**DR-16f**	The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action?	2 CFR 200.516 (b)(5); GAS 6.17, .28				
114	**DR-16g**	The identification of questioned costs and how the questioned costs were computed? Known questioned costs must be identified by applicable Assistance Listing and award numbers.	2 CFR 200.516(b)(6)				
115	**DR-16h**	Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as (1) whether the finding represents an isolated instance or a systemic problem, and where appropriate (2) relating instances identified to the universe and the number of cases examined, and (3) quantifying instances identified in terms of dollar value?	2 CFR 200.516 (b)(7); GAS 6.51				
116	**DR-16i**	The identification of whether the audit finding was a repeat of a finding in the immediately prior audit and if so any applicable prior year audit finding numbers.	2 CFR 200.516(b)(8)				
117	**DR-16j**	Recommendations to prevent future occurrences of the deficiency identified in the audit finding?	2 CFR 200.516 (b)(9); GAS 6.50, .52				
118	**DR-16k**	Views of responsible officials of the auditee?	2 CFR 200.516 (b)(10); GAS 6.57-.60				

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Section 3

Issues to Avoid in Preparing and Writing Findings

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Section 3 – Learning Objective

- Our objective for this section is to discuss common problem areas observed in the preparation and writing of findings that limit the usefulness of the findings or raise questions

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Getting Too Creative in Presenting the SFQC

- The following slide represents Section I of the SFQC for an auditee where an auditor got creative and, in doing so, also highlighted several potential errors in how the single audit was performed
  - Instead of discussing the unmodified opinion that was issued on the financial statements, this SFQC appears to be saying in **1**. that an unmodified opinion was issued on the SEFA
  - This SFQC also incorrectly refers to the SEFA instead of the financial statements in **2**. and **3**.
  - The AICPA's illustrative SFQC uses the wording "None Reported" to state that no significant deficiencies were identified during the audit. This SFQC uses the wording "No significant deficiencies were disclosed during the audit." AU-C section 265 precludes an auditor from issuing a written statement that no significant deficiencies were identified during an audit, and this wording is close to using that type of wording

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Getting Too Creative in Presenting the SFQC

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the Statement of Expenditures of Federal Awards of [redacted] was prepared in accordance with GAAP.

2. No significant deficiencies were disclosed during the audit of the Statement of Expenditures of Federal Awards. No material weaknesses are reported.

3. No instances of noncompliance material to the Statement of Expenditures of Federal Awards of [redacted] which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. One significant deficiency in internal controls was identified during the audit of the major federal awards programs, which did not impact the financial statements or the Schedule of Expenditures of Federal Awards. No material weaknesses are reported.

5. The auditor's report on compliance for the major federal award program for [redacted] expresses an unmodified opinion on the major federal program.

6. Audit findings that are required to be reported in accordance with Title 2 U.S. CFR section 200.516(a), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal Awards (Uniform Guidance) are reported in Part C of this schedule.

7. The programs tested as major programs included:
   Child Nutrition Cluster
   U.S. Department of Agriculture School Breakfast Program – Listing Number 10.553
   U.S. Department of Agriculture National School Lunch Program – Listing Number 10.555
   U.S. Department of Agriculture Fresh Fruit and Vegetable Program – Listing Number 10.582

8. The dollar threshold used to distinguish between Type A and Type B programs was [redacted]

9. [redacted] was determined to be a low-risk auditee.

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Adding Unusual Wording to Audit Findings

- The following slide is an excerpt that appeared at the end of a significant deficiency finding
- The finding was of a routine nature for a medium-sized NFP, and the wording just seems unnecessary at best and may raise questions at worst

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Adding Unusual Wording to Audit Findings

Confidential and Sensitive Info: Financial and operational documents referenced in this audit finding, including internal compliance procedures and staff training materials, contain sensitive information. These documents are confidential and have been shared with the audit team under a confidentiality agreement.

Before Looking at the Next Slide, Let's Review the Definition of **Questioned Cost**

- **Questioned cost** has the meaning given in paragraphs **(1)** through **(3)**
  - **(1) Questioned cost** means an amount, expended or received from a federal award, that in the auditor's judgment:
    - (i) Is noncompliant or suspected noncompliant with federal statutes, regulations, or the terms and conditions of the federal award;
    - **(ii) At the time of the audit, lacked adequate documentation to support compliance**; or
    - (iii) Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances
  - **(2) The questioned cost amount under (1)(ii) is calculated as if the portion of a transaction that lacked adequate documentation were confirmed noncompliant**
  - (3) There is no questioned cost solely because of:
    - (i) Deficiencies in internal control; or
    - (ii) Noncompliance with the reporting type of compliance requirement (described in the Compliance Supplement) if this noncompliance does not affect the amount expended or received from the federal award

Not Considering the Definition of **Questioned Cost** in Developing Findings (the Finding Below Describes Missing Support but No Questioned Cost)

2024-004 Missing Support - Internal Control and Compliance - Material Weakness - Noncompliance with Activities Allowed and Unallowed

U.S. Department of State - Federal Assistance Listing Number 19.800
Weapons Removal and Abatement Program

Criteria
Standard auditing practice is to review invoices and other support for numbers recorded in the general ledger. During our testing, four invoices and five contracts for the contracted staff could not be provided.

Condition
Since the above items could not be provided, we were unable to determine whether federal funds were spent in conjunction with the grant agreement.

Cause
The Organization does not have a central physical location. The contracted staff are in multiple countries.

Effect
The Organization is not in compliance with activities allowed and unallowed requirements.

Recommendations
We recommend that the Organization maintain all pertinent documents in a central location so they can be easily accessed. In addition, all general ledger transactions should be accompanied by support.

Views of Responsible Officials
Management agrees with the recommendation. Currently working on establishing a better setup with Administration on Google Drive to have every Sub-recipient and Contracted employee upload everything into each individual country folder.

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Before Looking at the Next Slide, Let's Again Review the Definition of **Questioned Cost**

- **Questioned cost** has the meaning given in paragraphs **(1)** through **(3)**
  - (1) **Questioned cost** means an amount, expended or received from a federal award, that in the auditor's judgment:
    - (i) Is noncompliant or suspected noncompliant with federal statutes, regulations, or the terms and conditions of the federal award;
    - (ii) At the time of the audit, lacked adequate documentation to support compliance; or
    - (iii) Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances
  - (2) The questioned cost amount under (1)(ii) is calculated as if the portion of a transaction that lacked adequate documentation were confirmed noncompliant
  - **(3) There is no questioned cost solely because of:**
    - (i) Deficiencies in internal control; or
    - **(ii) Noncompliance with the reporting type of compliance requirement (described in the Compliance Supplement) if this noncompliance does not affect the amount expended or received from the federal award**

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Not Considering the Definition of **Questioned Cost** in Developing Findings (Due to Late Submission to the FAC, the Auditor Listed the Entire Amount as Questioned Cost)

Finding 2024-001

Federal Program Information (Significant Deficiency)

U.S. Department of Agriculture
Emergency Food Assistance Program (Food Commodities)
Federal Catalog No. 10.568 and 10.569

Criteria

In accordance with OMB Uniform Guidance, 2 CFR. 512(a)(1), an audit must be completed and the data collection form must be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

Condition

The Organization did not submit the audit and data collection form to the Federal Audit Clearinghouse by September 30, 2025.

Cause

Due to an abrupt change in management personnel because of health matters, the Organization was not able to provide audit documentation in sufficient time to perform the audit.

Effect

The Organization did not comply with federal requirements regarding submission of the audit package to the Federal Audit Clearinghouse.

Questioned Costs

$5,162,798 total federal awards received for the year ended December 31, 2024.

Proper Perspective

Limited to the audit for the year ended December 31, 2024.

Recommendation

The Organization should implement policies and procedures to ensure that the audit is completed and the Data Collection form and reporting package is submitted within the earlier of 30 calendar days after the receipt of the auditor's report or nine months after the end of the audit period.

Corrective Action Plan

Abrupt change in management caused a lapse in organizational knowledge, but new leadership has taken the proper steps to be audit-ready at all times. The inventory management position has now been filled.

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The **Summary of Auditor's Results** Section of the SFQC Says One Thing; the Federal Awards Findings Section Says Something Different

- The **summary of auditor's results** section of the SFQC should be in sync with the **federal awards findings section**
- **The excerpt below** from an SFQC indicates that no federal award findings were present (note that "**Internal control over financial reporting**" should say "**Internal control over major federal programs**"). However, the following slide shows that a material weakness was reported for the auditee

Federal Awards:

Type of auditor's report issued on compliance for major programs?	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a) of the Uniform Guidance?	No

SURGENT ACCOUNTING & FINANCIAL EDUCATION

The **Summary of Auditor's Results** Section of the SFQC Says One Thing; the Federal Awards Findings Section Says Something Different

Section III - Federal Awards Findings and Questioned Costs

2024 - 004 **Internal Controls Over Program Reporting**

Material Weakness

CONDITION
We determined during our engagement to audit the Association that there were not sufficient controls in place to ensure accurate financial reports were presented to [redacted] for federal program expenditures.

CRITERIA
2 CFR 200.303 requires that a non federal entity must (a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

CAUSE
The Association did not ensure all amounts being accrued for personnel benefits were accurate and correct. The Association also did not ensure inter-program transfers were properly recorded and completed.

EFFECT
The effect of this condition is that financial reporting is weakened so that there is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

QUESTIONED COSTS
Unknown.

REPEAT FINDING	PRIOR YEAR FINDING NUMBER
NO	N/A

RECOMMENDATION
The Association must ensure all amounts reported in the accounting software are accurate. The Association should conduct a more thorough review of financial reports to ensure accruals are calculated correctly and that income and expense items have not been entered more than once.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
The Association will work with their outside accountant to ensure all financial information is compiled and all necessary year-end closing and adjusting entries are properly completed. The Associaiton is also making changes to their accounting software to streamline the bookkeeping process and improve accuracy.

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Trying To Merge the Views of Responsible Officials Element of the Finding With the Corrective Action Plan

- §200.511 of the Uniform Guidance for Federal Awards states that the corrective action plan must be a document separate from the auditor's findings
- The following slide shows an excerpt from an SFQC where the corrective action plan was incorrectly merged into the reporting of the finding itself (i.e., no separate corrective action plan was submitted)

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Trying To Merge the Views of Responsible Officials Element of the Finding With the Corrective Action Plan

SECTION III- Federal Awards Finding

Significant Deficiency

2024-001	Audit requirement
Criteria	Per 2 CFR §200.512(a), the auditee must submit the data collection form and reporting package to the Federal Audit Clearinghouse ("FAC") within the earlier of thirty calendar days after receipt of the auditors' report, or nine months after the end of the audit period.
Condition:	The auditee submitted the required reporting package to the FAC past the regulatory deadline.
Cause:	The delay was due to a combination of staff/management turnover in the finance department and late start of the audit.
Effect:	Late submission may result in noncompliance with federal regulations, potentially affecting the auditee's eligibility for future federal funding and triggering additional oversight or sanctions.
Recommendation	Management should implement a compliance calendar and assign responsibility to a specific staff member to track and ensure timely submission of audit reports.
Views of Responsible Officials and Planned Corrective Actions:	Management concurs with the finding and has already implemented a compliance tracking system. A new policy was adopted during FY 2025 to ensure timely submissions moving forward.
Contact Person:	[redacted] Outside Consultant
Completion date:	November 11, 2025

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Getting Creative and Not Following the Requirements for Reporting Findings

- The following slide is a material weakness finding from the federal awards findings section of an SFQC
- The auditor did not include most of the required finding elements for the material weakness

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Getting Creative and Not Following the Requirements for Reporting Findings

Findings and Questioned Costs – Major Federal Award Program Audit

DEPARTMENT OF HOMELAND SECURITY
Federal Emergency Management Administration

2025-002 Assistance to Firefighters Grant – Assistance Listing No. 97-044

Material Weakness. The District does not have written policies and procedures over major federal award programs as required under 2 CFR 200.303.

Recommendation: The District should develop formal written policies and procedures covering at a minimum allowable costs and cost principles, procurement standards, eligibility determinations and reporting and recordkeeping for federal awards. These policies should align with GAO Green Book and COSO Internal Control Framework. Staff should be trained to implement monitoring and ensure consistent application.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and will develop written policies and procedures over federal awards.

Getting Creative and Not Following the Requirements for Reporting Findings

- As seen on the prior slide, most of the required finding elements in the reported material weakness were omitted from the SFQC
- Interestingly enough, when the auditee wrote the corrective action plan in response to the finding, the auditee included many of the missing elements in the corrective action plan (as seen in the following slide)

Getting Creative and Not Following the Requirements for Reporting Findings

[redacted]
Corrective Action Plan
Year Ended June 30, 2025

Finding Reference: 2025-002

Federal Program: Assistance to Firefighters Grant – Assistance Listing No. 97-044

Classification: Material Weakness

Condition Identified by Auditor: The District does not have written policies and procedures over major federal award programs as required under 2 CFR 200.303.

Criteria: 2 CFR 200.303 requires non-Federal entities to establish and maintain effective internal control over federal awards, including documented policies and procedures, consistent with GAO's Green Book or COSO framework.

Cause: The District relied on informal practices and staff knowledge rather than formalized written procedures.

Effect: Without written policies and procedures, there is a reasonable possibility of material noncompliance with federal program requirements, including improper expenditures, inconsistent application of rules, and increased risk of questioned costs.

Recommendation (from Auditor): Develop and implement written policies and procedures over major federal programs to ensure compliance with Uniform Guidance requirements.

Corrective Action Plan (Management Response): The District acknowledges the finding and has initiated corrective measures:

1. **Policy Development:** Draft comprehensive written policies and procedures addressing procurement, allowable costs, eligibility, reporting, and record retention for all major federal programs.
2. **Approval and Adoption:** Policies will be reviewed and formally adopted by the Board of Trustees prior to acceptance of further federal grants.
3. **Training and Implementation:** Staff responsible for federal program administration will be trained on the new procedures. Training materials will include checklists and step-by-step guides to ensure consistent application.
4. **Monitoring:** The District will conduct quarterly reviews of federal programs (if applicable) to ensure compliance. Exceptions will be documented and corrective action taken immediately.

Responsible Official:
[redacted]

Planned Completion Date: Prior to acceptance of any new federal grants

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Presenting Finding Elements Out of Order Can Lead to Somewhat Confusing Findings

- When discussing the core finding elements of **criteria**, **condition**, **cause**, and **effect**, the Uniform Guidance for Federal Awards, the Yellow Book, and the AICPA all present those finding elements in that sequence
- Developing findings using the suggested sequence (criteria, condition, cause, and effect) helps in writing findings that clearly answer four questions that report users typically have:
  - What should have been there? (i.e., the **criteria**)
  - What did the auditor find? (i.e., the **condition**)
  - Why did it happen? (i.e., the **cause**)
  - Why do we care about it? (i.e., the **effect**)

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Presenting Finding Elements Out of Order Can Lead to Somewhat Confusing Findings

- The following slide contains a material weakness **financial statement finding** from an SFQC
- Instead of developing the finding using a sequence of **criteria**, **condition**, **cause**, and **effect**, the auditor used a sequence of **condition**, **criteria**, **effect**, and **cause**
- The result is a finding that sounds severe (e.g., part of the **condition** element states “No journal entries had proper supporting documentation”). However, the **effect** element almost makes it sound not severe
  - The following **effect** element states “Failure to maintain supporting documentation” instead of perhaps “Failure to maintain supporting documentation leaves the entity and its financial statements subject to potential error, fraud, and loss of grant funding”

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Presenting Finding Elements Out of Order Can Lead to Somewhat Confusing Findings

2024-002

Condition: During audit procedures, we noted that supporting documentation is not appropriately maintained. This included the following:

- 13 of 20 (65%) tested credit card transactions lacked supporting documentation
- 30 of 60 (50%) tested other transactions lacked supporting documentation
- No journal entries had proper supporting documentation
- No In-Kind donations had proper supporting documentation

Criteria: Proper internal controls require all transactions to have proper support.

Effect: Failure to maintain supporting documentation.

Cause: Supporting documentation is not maintained by finance department.

Recommendation: Supporting documentation with evidence of approval should be retained.

Management Response: Management concurs with this finding. Management will implement the recommendation. This action was taken immediately upon receipt of the recommendation from our auditors.

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Presenting Finding Elements Out of Order Can Lead to Somewhat Confusing Findings

- An additional note about the financial statement finding on the prior slide: the auditee's **corrective action plan** did not address the finding
- §200.511 of the Uniform Guidance for Federal Awards states that the corrective action plan and summary schedule of prior audit findings must include financial statement findings that the auditor was required to report under the Yellow Book

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Perhaps a Petty Comment, but Try Not To Leave Unanswered Questions in Developing Findings

- The following slide is a federal award finding indicating that the client was unable to reconcile the SEFA to the general ledger and that the information in the SEFA was incorrect
- In the audit report, the auditor indicates that they were able to reconcile the SEFA to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves **and** that the SEFA is fairly stated in all material respects in relation to the financial statements as a whole
- The author would recommend the finding be written in a manner that makes clear that the final SEFA being reported on was indeed corrected (i.e., so users are not left with that question)

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Perhaps a Petty Comment, but Try Not To Leave Unanswered Questions in Developing Findings

2024-003: Completeness of the Schedule of Expenditures of Federal Awards

Federal Program: Beginning Farmers and Ranchers Development Grant
Assistance Listing Number: 10.311
Federal Agency: U.S. Department of Agriculture
Pass-Through Entity: None
Federal Award Identification Number: [redacted]
Repeat Finding: This is not a repeat finding

Criteria –	Management is responsible for preparing a complete and accurate Schedule of Expenditures of Federal Awards.
Condition –	During compliance testing, it was determined that the Schedule of Expenditures of Federal Awards provided to us to begin our audit was not complete and accurate.
Context –	Management was unable to fully reconcile the Schedule of Expenditures of Federal Awards to the general ledger.
Cause –	The information contained in the Schedule of Expenditures of Federal Awards was not accurate.
Effect –	As a result of the condition, management was unable to fully reconcile the Schedule of Expenditures of Federal Awards to the general ledger.
Recommendation –	In the future, management should ensure it implements appropriate processes and controls to ensure the Schedule of Expenditures of Federal Awards contains complete and accurate data.
Views of Responsible Officials –	Management acknowledges the finding and will implement appropriate processes and controls to ensure the Schedule of Expenditures of Federal Awards contains complete and accurate data.

Including Items in the SFQC That Are Not Required To Be Reported

- The following slide contains an excerpt from the financial statement findings section of an SFQC
- After including several reportable findings, the auditor also included an “Other Comments” section that appears to discuss additional control deficiencies the auditor did not believe met the significant deficiency threshold
- While AU-C section 265.12 requires the auditor to communicate such lower-level control deficiencies to management (in writing or orally), including such findings in the SFQC to some degree clutters the reporting and may distract from the required reportable findings

Including Items in the SFQC That Are Not Required To Be Reported

OTHER COMMENTS, Continued

<u>**School Information Technology Procedures**</u>

The [redacted] Department does not have formal, written procedures governing backup and data retention, information security, password controls, or change management. Also, annual cybersecurity training has not been implemented. Without formal IT policies and procedures and annual cybersecurity training, the School is exposed to increased risk of data loss, system downtime, and security breaches. We recommend the School develop and implement formal backup and data retention, information security, password controls, and change management policies. We also recommend implementing annual cyber security training for all staff.

<u>Management Response/Corrective Action Plan:</u> Cybersecurity training began during FY25 and will remain ongoing. The Information Technology Department will create a formal document to be updated annually for the audit, documenting formal procedures that are currently in place, as well as those being implemented based on the FY24 audit guidance.

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Including Items in the SFQC That Are Not Required To Be Reported

- The following slide contains an excerpt from the financial statement findings section of an SFQC with the same issue we saw on the prior slide for a different auditee
- In this case, the **summary of auditor's results** section of the SFQC indicated that no reportable Yellow Book findings were present. However, a rather long control deficiency (which the auditor considered below the significant deficiency level) was presented

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Including Items in the SFQC That Are Not Required To Be Reported

Section II - Findings Required to be Reported Under *Government Auditing Standards*

OTHER COMMENTS

Policies and Procedures (repeat)

We recommend the District take the necessary steps to establish a formal policy and procedures manual. The areas we recommend should take priority in development are as follows:

Cash collection and deposit policy/procedures
Budgeting policies/handbook
Accounting manual
Net position policy
Capital asset policy
Disaster recovery plan
Code of ethics/conflict of interest policy
Computer maintenance and security policy

Policy is generally established by law, regulations or developed by oversight officials. However, even a policy which is a function of a State law should be clarified and an internal policy should be developed as to how the District wishes to carry out that law or regulation. Policies should have a stated goal - an example of a goal for a deposit policy might be, "To deposit all funds intact in a timely manner, within the guidelines of State law". In the case of each policy, a department should be charged with ensuring the policy is carried out.

Another critical component of policies is the establishment of segregation of duties. By dividing responsibilities—such as authorization, record-keeping, and asset custody—among different roles, organizations create checks and balances that reduce the risk of intentional wrongdoing or accidental mistakes. This principle strengthens internal controls, promotes accountability, and safeguards the integrity of financial and operational activities, ultimately supporting compliance and organizational trust.

Finally, procedures should be laid out which, if followed, would ensure that the goals of the policy are met. An important aspect of a policy is that at the bottom of the policy the date it was originally adopted and the date of the latest revision be shown. The process of the establishment of policies and procedures when none exist can be a tedious and time-consuming task. We recommend that goals be established for each area and then the task of drafting procedures to meet those goals be assigned to individuals along with a specific timeline for completion.

Management Response: The creation of a formal policy and procedures manual was not completed in 2024 due to the significant demands associated with District's $20.1 million infrastructure upgrade project and management staffing changes that occurred mid-year. The engagement of an accounting and financial services firm in mid-2025 will provide essential support for advancing this initiative during 2026. The District intends to proceed according to the priority order outlined above. Given the scope of work involved, combined with other ongoing projects, it is anticipated that full completion of this effort will extend beyond a single fiscal year, but preparatory work is underway.

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Make Sure the Views of Responsible Officials Comments Do Not Introduce Potentially Troubling Topics

- The following slide contains an excerpt from the financial statement findings section of an SFQC
- In the **views of responsible officials**, the client seems to indicate that, due to limited resources, they choose not to hire an individual with the skills, knowledge, and experience to review the financials (but they will continue to review them)
- Under 3.76 and 3.83 of the Yellow Book, the client is required to have someone with suitable skill, knowledge, or experience to oversee a nonaudit service, or the auditor would have an independence problem
  - The next slide appears to be a case of a client simply not understanding the importance of certain terminology to potential users

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Make Sure the Views of Responsible Officials Comments Do Not Introduce Potentially Troubling Topics

Finding 2025-002: Financial Statement Preparation Controls

Criteria: [redacted] should have internal controls over the preparation of formal year-end financial statements.

Condition: [redacted] has limited internal controls over the preparation of formal year-end financial statements.

Context: We assisted [redacted] with the drafting of the formal year-end financial statements, and [redacted] officials reviewed the drafts prior to the release of such financial statements.

Effect: Formal year-end financial statements could have errors in required disclosures.

Cause: [redacted] is a small organization with limited resources and personnel.

Repeat Finding: See Finding 2024-002 for a similar finding reported during the audit for the year ended February 29, 2024.

Recommendation: The internal controls surrounding the preparation of formal year-end financial statements should be improved.

Views of responsible officials: [redacted] agrees with the finding. Due to limited resources, [redacted] chooses not to hire an individual with the skills, knowledge, and experience to perform this review, but [redacted] will continue to review the financial statements before they are issued.

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Exercise 20

Do you see any problem with the below **criteria** element of a finding from a Yellow Book-only audit?

2025-001 Inadequate Segregation of Accounting Functions

Fiscal year finding initially occurred: 2025

CONDITION: [redacted] did not have adequate segregation of duties within the accounting function.

CRITERIA: AU-C §315.04, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, defines internal control as "a process, affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations."

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Solution to Exercise 20

- A slight problem with the criteria on the prior slide is that paragraph .04 of AU-C section 315 does not contain the definition of **internal control** shown in the finding (which is from SAS No. 109). SAS No. 145 removed that definition from AU-C section 315 (note that a somewhat comparable definition for a **system of internal control** is found in paragraph .12 of AU-C section 315)
- The suggestion here is that if the auditor is going to cite specific terminology and references to professional standards (which is not always necessary in a Yellow Book finding), they need to ensure those terms and references are current

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Just a Reminder To Watch Those Page Headings

- The following slide contains an excerpt from the federal awards findings section of an SFQC
- The finding was a current year significant deficiency related to errors in the original preparation of the SEFA
- The small error in the finding is the heading of the page. This page should be titled as part of the SFQC instead of the summary schedule of prior audit findings

SURGENT ACCOUNTING & FINANCIAL EDUCATION

Just a Reminder To Watch Those Page Headings

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Federal Award Findings and Questioned Costs

2024-003 Schedule of Federal Awards ("SEFA")

Criteria: Internal controls should be designed to capture the Food Bank's federal expenditures in order to ensure that an accurate Schedule of Expenditures of Federal Awards ("SEFA") can be prepared.

Condition: Uniform Guidance section 200.510 requires the auditee to prepare a SEFA. A complete and accurate SEFA was not provided to the audit team.

Cause: During 2024, the Food Bank was the pass-through recipient for three new federal programs. The disbursements were tracked by program throughout the year, however an Assistance Listing Number was not obtained and therefore the expenditures were not identified as federal expenditures and reported on the original SEFA.

Questioned Costs: None.

Effect: The SEFA is used by the auditor to determine which federal programs are to be audited as major programs and to accurately report expenditures to the federal government and granting agencies. Major programs may not be properly identified in accordance with the Uniform Guidance.

Recommendation: All information should be included on the SEFA by employees familiar with the grant awards. All grant awards should be evaluated for the nature of the funding and identified as federal, if applicable. A review should be performed by someone other than the preparer for accuracy and completeness.

Identification of a repeat finding: No.

Management's Response: *Management agrees with the finding.*

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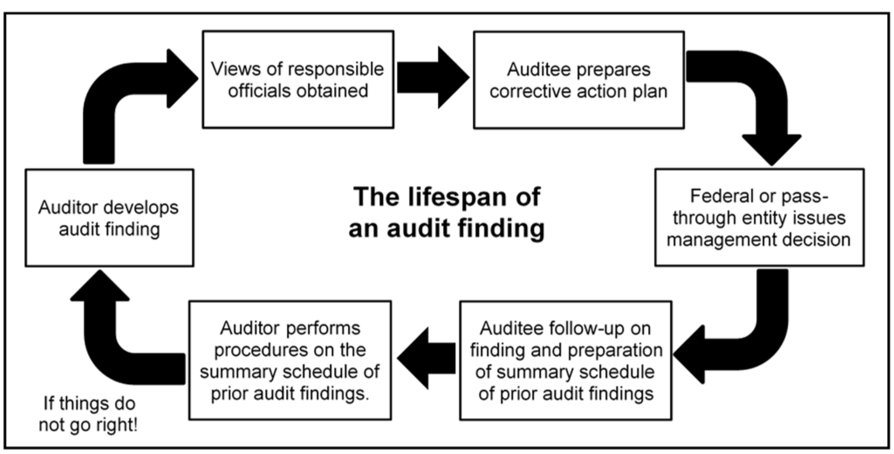
A Few Parting Thoughts About Writing Findings



SURGENT ACCOUNTING & FINANCIAL EDUCATION

A Few Parting Thoughts About Writing Findings

- **Choose your words wisely**. For example, if you believe those charged with governance will not be familiar with the meaning of "segregation of duties," try using alternative wording such as "having one individual in control of the authorization, accounting, and review of process X leaves the entity vulnerable to fraud or error"
- **Use as few words as possible**. Too many words can lose the limited attention of the user. Write the finding and then keep reading it over and over until you have eliminated any excess wording

Thank you!