**SINGLE AUDITS IN A PANDEMIC WORLD**

**Single Audit Concerns**

The United States has seen historic levels of federal funding in response to the COVID-19 pandemic. Various laws, including the CARES Act and the American Rescue Plan Act of 2021 have provided hundreds of billions of federal dollars to American businesses, state and local governments and not-for-profit organizations. While this funding has provided relief, it causes complications for many recipients. This aid has triggered the requirements for many entities to obtain single audits for the first time and has complicated the single audits of entities that have single audits on an annual basis. The environment has never been more challenging for providers of single audits, with guidance trailing the funding from many agencies. New types of awards, programs and conditions, as well as recent guidance updates, have made single audits more complicated.

**Single audit requirements**

The basic threshold for requiring a single audit is when a nonfederal entity expends $750,000 or more in federal funds in the entities’ fiscal year. The Single Audit Act of 1984 was established to ensure that federal funds are being spent as intended. Single audits for fiscal years beginning on or after December 26, 2014, have been performed under Uniform Guidance, contained in Title 2 of the U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit* *Requirements for Federal Awards*, a portion of federal law that includes the requirements for obtaining, operating, and auditing federal programs. A single audit includes an audit of both the financial statements and a compliance audit to determine whether the auditee has materially complied with federal statutes, regulations and the terms and conditions of its major programs. A single audit is more complex and comprehensive than a typical financial audit, and non-compliance can result in consequences to current or future funding, or even legal or regulatory action.

Requirements for a single audit from various relief funding acts have been confusing and overwhelming for many. The AICPA Governmental Audit Quality Center (GAQC) has compiled a listing of federal COVID-19 relief programs that are subject to single audit. You can find that listing here: **tinyurl.com/fedrelief.**

While a majority of federal programs under the CARES Act are now subject to Uniform Guidance, receiving Paycheck Protection Program (PPP) loans and Employee Retention Credits alone do not make an entity subject to single audit, and for organizations already subject to single audit, PPP loans do not need to be included in the schedule of expenditures of federal awards.

**Entities newly subject to single audits under Uniform Guidance**

Many recipients of pandemic funding have never had a single audit before and may not know what is required. Your existing clients may need a single audit for the first time, or you may begin working with new clients who have never even had a financial statement audit before.

Communication with clients about the types of funding they have received from the beginning of the pandemic in 2020 to the present is essential for audit planning. Encourage your clients to be proactive and ask questions about the funding they have received as many entities may be unaware of the requirements in the funding they have received. The sooner your clients know about the important and relevant information, the better prepared they are and the better you can meet audit requirements. Also, clients need to know that even if they are under $750,000 in federal awards spending, that administrative and other requirements of federal funding apply. Entities newly subject to Uniform Guidance should take time to read Subparts D (Post Award Requirements) and E (Cost Principles) which detail some of the more significant compliance requirements, including financial and program management standards, procurement standards, and considerations for direct and indirect costs. The specific terms and conditions required of the recipient are found in the grant agreement or award letter, including specific reporting deadlines, allowable expenses and other requirements like indirect cost rates or matching contributions.

**Compliance supplement for single audits**

To get a better understanding of the audit requirements for federal funding, a compliance supplement for auditors is released each year by the Office of Management and Budget (OMB). The 2020 compliance supplement was updated with an addendum issued in December 2020 addressing requirements for COVID-19 related grants and awards. A matrix in the addendum identifies the compliance requirements for certain programs that the federal government has determined are subject to single audit.

Because of the late issuance of the supplemental guidance for COVID-19 related programs, the OMB provided a three-month audit submission extension for single audits with 2020 year ends through September 30, 2020, if the recipient received some form of COVID-19 funding. An updated extension was released in March 2021 for fiscal years through June 2021, allowing recipients and subrecipients that had not yet filed their single audits an additional six months beyond the normal due date.

**Single audit risks**

Auditors of federal awards have a duty to the public to perform high-quality audits. Single audits have a significant public interest component as they involve taxpayer dollars and federal agencies rely on them as part of their administrative responsibilities for determining compliance with the requirements of the federal awards. Because of this, audit quality should always be at the forefront of every auditor’s mind.

Because of the complexity of single audits and the necessity of specialized knowledge of their rules and compliance requirements, you should consider whether you should accept a single audit engagement if you do not have experience performing them. Perhaps you should consider performing the financial statement audit, but other options for the single audit might be to have another firm perform the compliance portion of the single audit or have another firm with single audit experience perform a pre-issuance review of the audit to ensure a high-quality audit.

Some single audit risks include:

* **Internal controls related to compliance requirements –** A single audit includes testing of internal controls over federal programs. Preparing for a single audit should include an overview of whether internal controls over federal programs are designed to properly address the requirements of grants and awards, and whether these controls are function as intended.
* **Compliance testing in a single audit –** A single audit includes compliance testing that is defined in Uniform Guidance. There are specific guidelines for selection of programs to test and for compliance testing to be performed for the selected programs. Compliance testing can be a very complicated process that is not a part of a financial statement audit.
* **Cost allocations -** Correctly identifying costs that can be directly assigned to federally funded activities, versus indirect costs that are incurred for multiple purposes and need to be allocated, is a challenge where many organizations require assistance. The entity needs to ensure there is non “double dipping” (the same cost being charged to multiple funding streams) and needs to ensure that cost allocation methods are consistently applied.
* **Accuracy of the Schedule of Expenditures of Federal Awards (SEFA) –** Accuracy of the SEFA is important, because it is the basis for the auditor selecting major federal programs to audit. The determination of when a federal award is expended must be based on when the activity related to the federal award occurs. COVID-19 relief funding should be separately identified on the SEFA, and documentation of the federal awards dates and activity should be maintained.
* **Inadequate training of auditors performing single audits –** Single audits must be performed by external auditors and require specialized training. Single audits are conducted under Generally Accepted Government Auditing Standards (GAGAS), and GAGAS has specific ongoing education requirements that are beyond requirements of the State Board of Accountancy. The risks of regulatory exposure and the specialized nature of single audits mean that they are not easy for every firm to perform. It is difficult to develop the experience and expertise to complete single audits if a firm does very few single audits. Auditors of single audits need to develop a specialization to ensure proper compliance with the applicable regulations and standards.

**Continuing education regarding performance of single audits**

Firms should ensure that auditors receive the required training for all specialization areas and comply with the 2018 GAGAS (Yellow Book) standards. Additionally, there is single audit learning available through the MOCPA and AICPA, among other sources to help gain the fundamental knowledge need to perform single audits. Regarding the new COVID-19 funding, firms may want to pay close attention to any training provided by federal agencies.

A firm can also access the AICPA Government Audit Quality Center (GAQC) website, in particular its COVID-19 resources page, which outlines many resources. It may be also helpful to contact other firms on their single audit and related pandemic resources. It is oftentimes useful to visit with peers about what they have learned and are doing.

**Peer review and single audits**

Enhanced oversights in the AICPA peer review program have found a direct correlation between audit quality and the number of specialized engagements a firm undertakes, but size of the firm is not a predictor of audit quality. All sizes of firms can produce quality single audits if they have the proper training and resources. Some elements of maintaining an effective single audit practice include:

* Maintenance of up-to-date practice aids.
* Proper training of staff assigned to single audits.
* Being attentive to compliance testing documentation – ensuring that the audit documentation sufficiently documents the testing of compliance requirements that could have a direct and material effect on the major programs tested, or the auditor’s consideration of exceptions.
* Maintenance of a living quality control document customized to the nature of the firm’s practice.

**Looking ahead**

The pandemic has drastically changed work in many industries, and the accounting profession is no different. The next few years will see many more single audits being performed by more CPA firms across the country.

Keeping up with these changes while continuously striving to be the trusted advisor for you clients is tough. However, proper planning, education and communication will allow better service to clients and enhance audit quality.