



# Preparing for Your 2021-2022 Audit

## *Considerations Regarding American Rescue Plan Funding*

### What is included in this document?

- a. Process for understanding what audit(s) your local government must do. (pg. 1)
- b. Tips for strategically spending federal and state funds to reduce audit burden (pg. 1-2)
- c. Overview of internal controls and examples, and required compliance documents (pg. 2-4)
- d. Single Audit considerations (pg. 5)

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### Determine Your Audit Category

Confirm what type of audit you will be required to have. This is determined by the amount of state and federal funds you have **spent** in the 2021-2022 fiscal year, not received. If American Rescue Plan dollars push you into a new audit category, and you have spent under \$750K in other state and federal funds, you may be qualified for an alternative audit (see below).

The thresholds below will help you determine your audit category - if you fall into the single audit category, please go to page 5 for single audit considerations (if the answer is yes, go to single audit considerations).

#### Thresholds

The following thresholds are based on the amount of federal and state funds you have **spent** in a single fiscal year:

- Less than \$100,000** = Regular financial audit
- At or over \$100,000 and less than \$500,000** = Regular financial audit and a [Yellow Book audit](#).
  - The Yellow Book audit requires that someone on staff, in addition to your auditor, can answer questions on funds and do financials. If there is no one on staff who can do this, you will need two separate auditors.
- At or over \$500,000 state dollars** = Regular financial audit, yellow book audit, and state single audit.
- At or above \$750,000 federal dollars** = Regular financial audit, yellow book audit, and federal single audit.
  - Single audit and Uniform Guidance requirements for procuring audit services

***Further considerations for Single Audits can be found on page 5.***

### Strategies to Reduce Audit Burden

1. **Spending, not receiving** – Use [this budget template](#) to plan your federal and state spending over multiple fiscal years to ensure you align with your preferred audit threshold based on staff capacity.
2. **Alternative Audit** - SLFRF recipients that expend \$750,000 or more during the fiscal year in Federal awards **but** meet both criteria listed below are eligible for an alternative audit. This option is designed to reduce burden on the local government as compared to a single audit.
  - a. The recipient's total SLFRF award received directly from Treasury or received (through states) as a non-



entitlement unit of local government is at or below \$10 million; and

- b. Other Federal award funds the recipient expended (not including their SLFRF award funds) are less than \$750,000 during the recipient’s fiscal year.”<sup>1</sup>

Per Treasury’s Compliance Supplement Guidance, eligible recipients are permitted to do a compliance examination engagement via a practitioner “in accordance with the Government Accountability Office”<sup>2</sup> when using the alternative approach to a Single Audit under 2 CFR Part 200, Subpart F. *Detailed compliance requirements (part D) can be found on page 14 of the [guidance document](#). Please consult your auditor about these requirements if you think you qualify.*

## Make Sure Your Internal Controls and Documents Are in Place

Local governments receiving ARPA/SLFRF funds must adopt internal controls sufficient to safeguard federal dollars. Start by looking at the internal controls that you already have in place and see where there could be improvement.

There are 5 basic principles in the best practice framework for internal controls, outlined by [the Green Book Standards](#). You do not have to follow the Green Book directly, as it is designed for federal governmental agencies, but your internal controls should be akin to Green Book Standards.

### Control Environment

- Develop **standards of conduct** implemented for the organization and should communicate their expectations “concerning integrity and ethical values.” The Standards of Conduct should define these expectations.
- Management should 1) demonstrate a commitment to integrity and ethical values, 2) establish an oversight body to oversee the entity's internal controls, 3) establish an organizational structure, assign responsibility, and delegate authority to achieve objectives, 4) demonstrate a commitment to recruit, develop, and retain competent individuals, and 5) evaluate performance and hold individuals accountable for internal control responsibilities.

### Risk Assessment

- Identify, analyze, and respond to risks by asking the question, “where is there potential for things to go wrong?”
- Identify objectives in “specific and measurable terms” to design internal controls for risks and enable the identification of risks and risk tolerance, identify, analyze, and respond to risks related to objectives, consider the potential for fraud, and consider and respond to significant changes that could impact objectives.

### Control Activities

- Establish control policies and design the entity's information system to effectively “achieve objectives and respond to risks in the internal control system.”

### Information and Communication

- Communicate your controls clearly within and outside your organization and provide staff training using quality information to make decisions, clearly communicate quality information internally and externally.

### Monitoring Activities

- Routinely monitor and test your systems and respond efficiently and timely. Establish a baseline - Measure the current state of the internal control system against the condition at another point in time.

<sup>1</sup> <https://www.cfo.gov/assets/files/21.027%20Treasury%20SLFRF%20Technical%20Update%20-%20Final%20%2004%2004%2022.pdf>, pg. 9-10

<sup>2</sup> <https://www.cfo.gov/assets/files/21.027%20Treasury%20SLFRF%20Technical%20Update%20-%20Final%20%2004%2004%2022.pdf>, pg. 10



## Internal Control Examples

- **Segregation of Duties** – Divide work duties or segregate across different people to reduce risk of error or inappropriate actions. *Federal auditors will look for adequate segregation in review and authorization of costs.*
- **Physical Controls** – Secure equipment, inventories, securities, cash and other assets through the use of locks, safes, or other environmental controls. Access is restricted to those with authority to handle them.
- **Reconciliations** – Compare similar records maintained by different people to verify transaction details are accurate and that all transactions are properly recorded, such as bank statements to check register/records.
- **Policies and Procedures** - Establish policies, procedures, and documentation that provide guidance and training to ensure consistent performance at a required level of quality across all levels of the organization.
- **Transaction and Activity Reviews** – Documented management review of transaction, operating, and summary reports to monitor performance against goals and objectives, spot problems, identify trends, etc., such as budget statements to actual expenses or timecards and overtime hours. *Auditors will look for adequate controls to separate federal and non-federal activities - e.g., a project code for each federal activity - and that the cost is allowable. Accountability of staff to know allowable costs is a good control.*
- **Information Processing Controls** – Perform internal controls during data processing to check accuracy, completeness, and authorization of transactions, such as edit checks on data entries, accounting for transactions, or controlling development of new systems.

## Internal Control Audit Question Examples: Payroll-Specific

- Is a separate payroll bank account used?
- Are deposits to the payroll bank account compared with the payroll register?
- Is payment of wages in cash prohibited?
- Are persons preparing payroll independent of other payroll and personnel duties (for example, timekeeping, distribution of checks, and hiring employees)?
- Is access to personnel records and payroll computer files restricted?
- Are there adequate timekeeping and attendance records and procedures? (For example, timecards and time clocks are properly controlled and approved; overtime is specifically approved in advance)
- Are there procedures for preparing and investigating subsequently returned payroll checks and W-2s?
- Are there procedures in place to ensure that payroll taxes are paid in a timely manner and that payroll tax returns are filed when due?
- Are there procedures in place to ensure that other withholdings, such as 401k and LGERS, are remitted in a timely manner?
- Are there procedures in place to ensure that payroll costs are allocated to the appropriate accounts/funds/programs?
- Is there a periodic general review of payroll registers by management?
- Are there adequate authorization, approval, and documentation procedures regarding changes in employment? (additions, changes, terminations, salary and wage changes, payroll deductions)
- Are there adequate authorization and approval procedures related to vacation, holiday, and sick leave compensation?
- Is a reconciliation completed between payroll registers, the general ledger, and W-2 wages and reviewed/approved by appropriate management?
- Are there procedures in place to determine whether individuals are employees or independent contractors?



## Templates Policies: UG Compliance and Internal Controls

1. Written policies and guidance/standards of conduct around financial management for your organization
2. Written / documented risk assessments
3. Records Retention Policy
4. Eligibility Policy – eligible purchases
  - a. Having written documentation of each project
5. Cost Principles/Allowable Costs Policy
6. Nondiscrimination Policy
7. Conflict of Interest Policy
8. If applicable: Subaward and Monitoring Policy
9. If applicable: Property Management Policy
10. If applicable: Program Income Policy

**DOCUMENT everything! All templates from School of Government [here](#).**

## Further Assistance

Our team at TJCOG is available to you should you have questions regarding auditing requirements and following ARPA and Uniform Guidance standards. We can walk through the process with you, provide you with resources, connect you to the right people, and talk with you and your auditors.

Please reach out to Alana Keegan, [akeegan@tjcog.org](mailto:akeegan@tjcog.org) or Tara Nattress, [tnattress@tjcog.org](mailto:tnattress@tjcog.org) for help.

All relevant resources can be found on our website, [here](#).



## Single Audit Considerations

A single audit is “a compliance-based audit of a non-Federal entity’s expenditures of Federal financial assistance...its goals are to assure the financial accuracy of non-Federal entity’s financial statements, determine whether its internal controls are sufficient and operating properly, and review its compliance with the laws and regulations related to specific federal programs.”<sup>3</sup> You may also undertake a program-specific audit instead of a single audit.

You must follow the procurement standards in [2 C.F.R. 200.317 - 200.327](#) when engaging an audit firm to perform a single audit for your unit. The three procurement methods to be used in engaging an audit firm are:

- 1. Micro-purchases
- 2. Small purchases
- 3. Sealed bids

There is a high probability that under a single audit that ARPA money will be pulled as a major program/will likely be examined more closely.

For further guidance on single audits, please reference the SOG’s [blog post](#) and talk with your auditor and lawyer about if you require a single audit and what your next steps should be if you do.

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<sup>3</sup> <https://canons.sog.unc.edu/2022/01/procuring-single-audit-services-under-the-uniform-guidance-2-c-f-r-part-200/>