



# State of Arizona Accounting Manual

Topic 10 Accounting and Reporting  
Section 16 The Single Audit

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## **INTRODUCTION**

The Federal Government spends hundreds of billions of dollars annually in the form of financial assistance to state and local governments, Native American tribes (which are defined as states for the purposes of the Single Audit), and to the District of Columbia, Puerto Rico and the Virgin Islands, as well as to numerous tax-exempt, not-for-profit organizations. This Federal financial assistance is used by its recipients for transportation, welfare, education, health and other programs.

The Single Audit is conducted each year under the authority of the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507). The purpose of the Single Audit Act (the Act) was to eliminate the grant-by-grant audits that had been the practice.

The Auditor General is responsible for conducting the State of Arizona Single Audit.

The Department of Administration, General Accounting Office, is the single point of contact within the Government of the State of Arizona for coordination of the Single Audit with the lead cognizant Federal agency, the United States Department of Health and Human Services.

## **Objectives of the Single Audit Act**

There are five objectives stated in the Act:

1. Promoting sound financial management of Federal awards, including effective internal controls.
2. Establishing and promulgating uniform audit requirements.
3. Bringing about efficient and effective use of audit resources.
4. Reducing burdens on State and local governments, Indian tribes, and nonprofit organizations; and
5. Enabling confident reliance upon and use of audit work performed under the guidelines and requirements of the Act.

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## Single Audit (vs. Grant-by-Grant Audit)

Single Audit is a term used in reference to:

1. Audits of the general purpose financial statements of the recipient receiving Federal financial assistance and the recipient's schedule of Federal financial assistance.
2. Tests of compliance with statutory and regulatory requirements of that recipient as part of a financial statement audit and Federal financial assistance programs.
3. Study and evaluation of the internal accounting control environment of the recipient as part of an audit and the internal accounting and administrative controls over major Federal financial assistance programs.

## Scope of the Single Audit Act

Under the Act, all Federal assistance programs administered by the recipient are included in the scope of the audit. Assistance has a broad definition that covers:

1. Noncash assistance, such as USDA-donated commodities.
2. Loan and guarantee programs where no cash assistance was actually received.
3. In-kind contributions, such as surplus land donated for park use.
4. Interest subsidies.
5. Insurance

The Act does not include:

1. Economy and efficiency audits or program results audits.
2. Program evaluations.
3. Detailed grant-by-grant audits.

## Appertaining Federal Laws and Guidance

The following are the Federal laws and other guidance related to the Single Audit:

1. Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507).
2. Title 2, Grants and Agreements, Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Super Circular).

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3. OMB 2 CFR, Part 200, Subpart F – Audit Requirements, Appendix XI – Compliance Supplement.
4. General Accounting Office Corrective Action Plan (CAP) and Summary Schedule of Prior Audit Findings (SSPAF) Guidance for State Agencies.

## **Cognizant Agencies / Federal Awarding Agencies**

The designated cognizant agency is the Federal awarding agency that provides the predominant amount of direct funding. Ordinarily, the cognizant agency is the same as the Federal awarding agency; when there is a difference, the duties listed below are shared by or divided between the cognizant agency and the Federal awarding agency. The cognizant agency for the State of Arizona is the United States Department of Health and Human Services (HHS).

Among its many other duties, the cognizant agency must:

1. Provide technical audit advice and liaison assistance to auditees and auditors.
2. Obtain or conduct quality control reviews on selected audits made by non-Federal auditors and provide the results to interested organizations.
3. Promptly inform other affected Federal agency and appropriate Federal law enforcement officials of any direct reporting by the auditee or its auditor required by Generally Accepted Governmental Auditing Standards (GAGAS), or by statutes and regulations.
4. Advise the community of independent auditors of any noteworthy or important factual trends related to the quality of audits. Significant problems or quality issues consistently identified through quality control reviews of audit reports are referred to appropriate state licensing agencies.
5. Advise the auditor, Federal awarding agencies and, when appropriate, the auditee of any deficiencies found in the audits if the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee must work with the auditor to take corrective action. If corrective action is not taken, the cognizant for audit must notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action, including, possibly, recommendations to licensing agencies and professional bodies for disciplinary action.
6. Coordinate, to the extent practical, additional audits or reviews made by or for Federal agencies, so that additional audits or reviews build upon, rather than duplicate the activities, efforts and findings of Single Audits.
7. Coordinate a management decision for audit findings that affect the programs of more than one than one Federal agency.

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8. Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.
9. Provide advice to auditees as to how to handle changes in fiscal years.
10. Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of the award.
11. Use cooperative audit resolution mechanisms to improve Federal program outcomes through better audit resolution, follow-up and corrective action.
12. Designate a senior policy official of the Federal awarding agency who is to serve as the accountable official and point of contact for the Single Audit.

## Annual Audit Thresholds

The amount of Federal assistance received is the primary determinant of whether an entity is subject to the Single Audit.

1. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit except when it elects to have a program-specific audit conducted.
2. When an auditee expends Federal awards under only one Federal program (excluding Research and Development) and the Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee, the auditee may elect to have a program specific audit.
3. No audit of any type needs be conducted when Federal assistance of less than \$750,000 is expended. Nonetheless, the recipient must maintain the records of the grant activities required by the grant.

## Audit Scope

The scope of the Single Audit encompasses the entire financial operations of the recipient to determine and report that:

1. The financial statements of the recipient fairly present its financial position and results of operations in accordance with GAAP.
2. The recipient has internal control systems to provide reasonable assurance that its overall affairs and Federal financial assistance programs are in compliance with applicable laws and regulations.
3. The recipient has complied with laws and regulations that may have a material effect on its financial statements.

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## Audit Frequency

Single Audits are generally to be conducted annually; the State of Arizona has an annual audit requirement.

## Audit Reports

The Single Audit results in the publication of several reports with findings relevant to the recipient.

1. A report on the audit of the general purpose or basic financial statements of the recipient as a whole.
2. A report on the internal control structure based solely on a study and evaluation made as part of the audit of the general purpose or basic financial statement.
3. A report on compliance with the laws and regulations that may have a material effect on the general purpose or basic financial statements.

## Reports Related to Federal Financial Assistance Programs

In conjunction with the Single Audit, a series of specialized reports upon the activities of Federal financial assistance programs is published, which contains:

1. A report on the Supplemental Schedule of Federal Financial Assistance, showing total receipts, expenditures, and other details for each Federal assistance program.
2. A report on internal controls (accounting and administrative) applied in the administration of Federal financial assistance programs.
3. A report on compliance with the laws and regulations relating to major Federal financial assistance programs that identifies all findings of noncompliance and questioned costs.
4. A report on general compliance matters relating to Federal financial assistance programs.
5. A report on compliance with the laws and regulations relating to non-major Federal financial assistance programs.
6. If necessary (i.e. when such acts are discovered), a report on fraud, abuse, or any illegal acts, or indications of such acts.
7. A schedule of findings and questioned costs, if applicable, to accompany the foregoing.