Nonprofit Accountability: The Single Audit for Federal Award Compliance

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Over 1.5 million nonprofit organizations exist in the United States. “Charity” is a more prominent term among the public, carrying the connotation of an entity that asks for money to provide assistance to those in need. While these are common, the nonprofit sector includes many other types of organizations. Museums, universities, environmental conservation groups, disaster relief, zoos, and hospitals are only a few. Can you imagine a community without any of these? Nonprofits provide essential services that create value for the country. This is their main goal, setting them apart from all other corporations which strive to make a profit. As their name references, not-for-profits do not generate profits for the benefit of owners. However excess income is still an important part of running an organization. Instead of distributing to stakeholders, all earnings are retained and recycled during the next period to continue providing services. Nonprofits are held in high regard due to their selfless actions and lack of materialistic interests. Nevertheless they are still in charge of managing money, a known corruptor.

Managers of public corporations are under intense pressure to generate a favorable bottom line, increasing retained earnings to raise the value of stocks and potential dividends. Temptations to misrepresent financial statements and deceive stakeholders are high; therefore the government requires public companies to undergo financial audits conducted by independent CPAs, holding them accountable to federal accounting laws. The Sarbanes Oxley Act which dictates this requirement does not apply to nonprofits. But, despite their honorable reputation, this sector is not immune to temptations. Instead of showing high income, nonprofits want to show a greater proportion of funds spent on activities benefiting the public. A way to hold them accountable is just as necessary. All nonprofits must file IRS Form 990, an annual document that includes the same information as traditional financial statements. It is not audited but it is available publicly; anybody can observe the financial activities of the organization, however
what is reported may not be accurate or include everything. A higher level of accountability is required when a nonprofit receives support through Federal funds. Similar to SOX, an independent audit must be conducted on its financial reporting and performance. This is called a Single Audit and it tests a nonprofit’s compliance with providing government supported services. Both the Form 990 and the Single Audit, if performed correctly, can prevent financial mismanagement and fraud. Even though they call for considerable time and resources which are often lacking, measures of nonprofit accountability cannot be ignored. Charitable organizations must be a sustainable part of communities; the United States would not have the same quality of life without its nonprofits.

501(c)(3) designation is the most common type of nonprofit organization. Categorization depends on the specific activities that will be performed. They are detailed in the mission statement, the reason for existence. This is provided upon registration as a nonprofit, included in the Articles of Incorporation. The mission of a 501(c)(3) expresses a charitable, educational, or scientific purpose. These purposes that do not benefit private interests are supported by state and federal governments, allowing such privileges as tax-exempt status. Unfortunately the selfless nature of a nonprofit often limits the amount of money it can earn through its activities. For example, if the mission includes offering services free of charge, where is the money to pay the cost of offering that service coming from? Fortunately the government also grants nonprofit organizations the ability to receive tax deductible contributions. These are relied upon heavily to support operations, making them incredibly important to the strength of an organization.

An adept fundraising and development department is essential; in order for nonprofits to offer their mission-based services they must be able to solicit donations from individuals, corporations, and governments. This is not just free money—contributions are complicated by
restrictions. They can be temporary or permanent, related to purpose or time. Donors want their hard earned money spent in a way acceptable to their own interests, and they deserve information about its management. Nonprofit organizations often provide periodic reports detailing expenditures; they may also be subject to an independent audit if support exceeds a certain level. They are accountable to several other stakeholders as well. Consumers of services and the public at large are interested to see a commitment to a charitable purpose and whether services are sustainable in the community\textsuperscript{[14]}. They can get their information from watchdog agencies--Charity Watch, Wise Giving Alliance, Charity Navigator, and Guidestar--which provide documents and give organizations a rating by taking into consideration fundraising procedures, board governance, and financial management\textsuperscript{[14]}. In an effort to protect the public from mismanagement, state government incorporation laws include a requirement to report on financial condition and operations annually\textsuperscript{[17]}. IRS Form 990 is also filed with the federal government to maintain tax-exempt status. The nonprofit organization provides gross income, receipts, disbursements, compensation, and other details about operations over the past fiscal year. If analysis of this document concludes that resources are funding the government accepted charitable purpose, on programs directly related to the mission or activities necessary to support them, then nonprofit benefits are allowed to continue\textsuperscript{[28]}. No matter the external party—government or private donors that fund operations, citizens that participate in programs, regulatory bodies that oversee activities—all are searching for a commitment to serving the public. To determine compliance to their interests, financial transparency is demanded.

It is likely that no one is more concerned with the use of their funds as the Federal government. They offer grants in recognition of nonprofit organizations’ importance to society. The Office of Management and Budget (OMB) works within the executive branch, assisting the
President of the United States in determining the amount of money that can be used to support the activities of nonprofit organizations [2]. Funds are actually awarded by Federal agencies which are created for various areas of interest to accomplish numerous tasks for the country’s wellbeing. Agencies distribute Federal funds to nonprofit organizations and help the OMB by regulating them. These contributions are covered by strict compliance requirements from at least four avenues. All Federal agencies came together to author the Code of Federal Regulations (CFR) which includes guidance specific to Federal awards [2]. The CFR provides general administrative rules that nonprofits must follow when they receive an award [2]. It also contains general cost requirements, which expenses the nonprofit can pay for with their award [2]. Recipients must look further for even more requirements. Programs which the award is part of as well as individual grant terms contain rules demanding compliance; these can even conflict with CFR guidance [2]. Keeping up with all four sets of compliance requirements is difficult, especially if an organization is receiving awards from multiple agencies. Therefore the Federal government requires an audit of awards to oversee nonprofit management. In depth testing is expected to achieve reliable assurance that Federal funds are used properly and correctly reported [7]. As this is taxpayer money, it is important for it to be spent on carrying out public functions and providing services benefiting communities [21]. In order for the government to demonstrate its accountability to the citizens of the United States, a different breed of audit is necessary to be more detailed than a regular financial audit, focusing on controls and compliance.

The Single Audit was created with the Single Audit Act of 1984. Before enacted, Federal agencies were in charge of establishing accounting, reporting, and auditing requirements for each of the awards they administered. For an organization receiving grants from several different
agencies, it was a burden to keep track of every single requirement; plus they were required to undergo multiple audits. The Office of Management and Budget (OMB) simplified the grant-by-grant process of compliance by requiring that audits of Federal funds be performed on an organization-wide basis, the Single Audit. The act was instated for four purposes: to improve financial management with respect to financial assistance programs, to establish uniform requirements for audits of financial assistance, to promote efficient and effective use of audit resources, and to ensure Federal agencies rely on Single Audit work. OMB Circular A-133 “Audits of States, Local Governments and Non-Profit Organizations” was released in 1990 to include nonprofit organizations in the Single Audit and detail its process. For the next twenty years revisions and amendments were made to these existing documents as needed.

A large overhaul of the Single Audit process occurred just recently in 2013 when OMB issued “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.” It combines eight circulars into one comprehensive document, creating a framework intended to lessen the burden of requirements for grants management. While putting all associated information in one place already contributes to ease of use, further improvements include defining and standardizing terms and clarifying sections of guidance. In addition to streamlining requirements, another goal of the OMB was to reduce the risk of waste, fraud and abuse of financial assistance. Therefore the most significant changes relate to audit requirements. The threshold of awards expended prompting an audit was raised, saving unnecessary effort by reducing the total amount of audits performed by 5,000; the level of auditor transparency was increased to ensure samples are adequate for detecting misstatements; and allowable costs were further limited in response to bad behavior to prevent misuse of Federal money. These adjustments are contained in subpart F which provides uniform guidance of the
Single Audit, superseding Circular A-133 and ending its long reign. 2 CFR part 200, subpart F describes the Single Audit responsibilities of both auditees and auditors, but first are the rules for determining whether a Single Audit is appropriate.

Nonprofit organizations which receive Federal awards from a Federal agency may be required to undergo a Single Audit. If $750,000 or more of these funds are expended during a single fiscal year, the organization must have a Single Audit conducted by independent auditors. To determine this amount, the entity prepares a Schedule of Expenditures of Federal Awards (SEFA). This lists the amount of grants spent, including any noncash transactions, during the period. To avoid the need to reformat SEFAs when submitting, it is important the auditee maintains award records in adherence to the requested template. The government expects a table with headings in the following order: Federal Agency Name, Pass Though Agency, Federal Program Title, CFDA Number, Other Identification Number, Program Cluster, Expenditures from Direct Awards and from Pass Through Awards, Total Expenditures, and Footnotes. Each of these attributes must be provided as they apply to individual awards. While the presentation is straightforward, calculating amounts expended can be tricky. The basic rule is that an award is considered expended when the nonprofit becomes accountable for whether the award is used in compliance with related laws, regulations, and contract terms, exposing the awarding agency to risk. This is triggered by different activities depending on the type of Federal funds. Amounts expended are valued using the nonprofit’s basis of accounting or fair market value at the time of receipt for non-cash assistance. 2 CFR 200.502 “Basis for determining Federal awards expended” explains the intricacies, including the more complicated instructions for loans and endowment funds. Once all information is compiled into the SEFA and
the total amount of awards expended indicates an audit is necessary, the next step is determining major programs.

Not all Federal award programs are included in the audit—it would take too long to complete. Instead to ensure efforts are concentrated on the highest risk, programs are selected for audit based on their chances of material noncompliance [17]. These are the major programs and there are four steps involved in their selection. First auditors categorize programs into Type A and Type B based on size, Type A being larger, using the scale presented in 2 CFR 200.518 “Major program determination”. Next, low-risk Type A programs are identified by considering prior audit experience, the level of oversight exercised by Federal agencies and pass-through entities, and the program’s inherent risk [23]. Programs with the lowest risk would have been audited with no findings within the last two periods. Despite being a significant contributor to the total amount of Federal awards expended, low-risk Type A programs do not need much audit attention given their solid track record of adherence to the conditions of the award. Third auditors identify high-risk Type B programs by considering the same risk criteria [23]. However, assessments need only be performed on programs larger than twenty-five percent of the Type A threshold from the first step, and no more than twenty-five percent of the number of low-risk Type A programs need be identified [23]. These provisions eliminate insignificant awards from auditors’ fields of vision and leave only those that need attention given their unreliable nature. Lastly, a combination of Type A and Type B programs are selected as major programs [23]. All Type A programs not indicated as low-risk and all high-risk Type B programs must be included. Additional programs may need to be selected to meet the percentage of coverage rule—at least forty percent of total Federal awards expended are required for audit, or only twenty percent if the auditee qualifies as low-risk [23]. With the major programs selected using a risk-based
approach, the Federal awards subject to testing and their related rules for compliance are now known and auditors can develop a program for performing a Single Audit on the nonprofit organization.

In addition to subpart F, a Single Audit follows Generally Accepted Government Auditing Standards (GAGAS). The Government Accountability Office (GAO), the agency that provides financial investigation services for the United States, publishes these standards in the Yellow Book. Instead of using Generally Accepted Accounting Standards (GAAS), the GAO created another set of standards to cover the audits of government entities. In charge of the money of its citizens, they face a greater need for oversight, accountability, and transparency \[21\]. Legislators and the public need to know officials are using their authority to achieve predetermined objectives that will end up benefiting the country as a whole \[21\]. Nonprofit organizations receiving federal awards are not government entities, but they are in charge of managing federal funds originating from taxpayers. The purpose of this transfer was to provide a service for the community, almost on behalf of the government. Therefore they are responsible to the same set of standards. At the most basic level of GAGAS are four general standards. Auditors must be competent in their ability to perform a GAGAS compliant audit, maintaining the technical knowledge and training for adequate performance \[21\]. Independence is maintained throughout the audit so that their performance and conclusions are reliably impartial and void of bias \[21\]. Professional judgement is exercised in all aspects, questioning everything in order to diligently perform an accurate audit and applying ethical principles with due care \[21\]. Lastly, the organization performing the audit must have a system of quality control assuring that its personnel are following applicable professional and legal requirements; a firm conducting GAGAS audits should have an external peer review at least once every 3 years to test these
controls and confirm the reliability of audit work \[^{21}\]. By following these general standards, auditors establish credibility for their work \[^{21}\]. Legislators and the public can use the information provided by a GAGAS audit with confidence. The entire operations of award recipients are encompassed in a Single Audit, with audit work covering financial statements and the SEFA \[^{23}\]. Auditors’ ultimate responsibility is to prepare a report that includes an opinion on financial statements and the SEFA, a report on internal controls related to the financial statements and major programs, a report and opinion on compliance for each major program, and a Schedule of Findings and Questioned Costs \[^{23}\]. This component of the Single Audit is what provides the Federal government with assurance that award recipients have complied with applicable laws and regulations. It is up to the auditors, using their understanding of the entity and Federal awards, to determine the procedures that will achieve this objective.

One portion of the Single Audit is a normal GAGAS financial audit. It addresses the first two portions of the Auditor’s Report, the opinion on financial statements and Schedule of Expenditures of Federal Awards and a report on their related internal controls. It is the auditee’s responsibility to provide the Statement of Financial Position, Statement of Activities, Statement of Cash Flows, and SEFA \[^{23}\]. Once received, auditors perform procedures on transactions and account balances to test for material misstatements. The program they design gives reasonable assurance, not a guarantee \[^{17}\]. It ultimately provides an opinion on whether the statements are presented fairly in accordance with GAAP or, for the SEFA, in relation to the financial statements as a whole \[^{23}\]. The guidance that GAGAS provides for the financial audit incorporates all of the GAAS standards and adds a few more. These take into account the aspects of government entities that are unique to public corporations, mostly increasing the level of testing detail and accountability. The most obvious addition is considering federal award
compliance requirements during testing, along with making sure the organization is following general laws and regulations. Another standard helps auditors understand these requirements—communicating with all parties involved in the oversight of the award, not only the nonprofit auditee. These parties can include the federal agency that awarded the funds, the federal department the agency operates under, and the state government, among several others. This communication during the audit keeps everyone on the same page regarding the nonprofit organization and the status of its award, perhaps specific requirements or issues that have occurred, allowing for the development of more useful tests. Pertinent information about the results of the audit is also relayed so external parties are not relying solely on the final audit report. Agencies can talk to the CPA about the source and extent of an issue, pinpointing exactly what they need for oversight, quickly and efficiently working towards a solution.

Auditors play their own role in oversight during a GAGAS audit. At the conclusion of a Single Audit the nonprofit creates a Corrective Action Plan to solve any issues that were revealed. In order to properly plan the audit, the CPA should evaluate whether the organization followed through with the plan. This helps determine risk, because if the issues were not corrected there will most definitely be misstatements; additionally it provides guidance on what aspects of the financial process to test. What allows the Corrective Action Plan to be created in the first place is information provided by auditors. When their initial findings during the financial audit involve internal control deficiencies or noncompliance, GAO requires they develop procedures to figure out what rules were broken and the cause and effect of this departure. This feels like a lot of extra work when performing a regular audit under GAGAS; however a Single Audit builds upon the financial audit by specifically requiring an in depth look at the internal controls of the nonprofit organization.
A report on internal controls over financial reporting and compliance must be included in the Auditor’s Report. An assessment of control risk and testing of controls is done during the financial audit to determine the effectiveness of the nonprofit’s financial process for preventing material misstatements. For an organization receiving federal awards, its controls not only enable compliance with GAAP but also federal laws and regulations under GAGAS guidance and the specific terms of the award under Single Audit guidance. Since there is such an increase in the complexity and amount of rules an award recipient faces, this dedicated component to examine internal controls is essential, especially because later a compliance audit will also be completed.

Unlike a financial statement audit, auditors rely on internal controls while testing for compliance. Procedures are planned on processes the organization has in place to support a low level of control risk of noncompliance. With controls able to prevent or detect noncompliance, full attention can be given to determining whether the nonprofit spent its award correctly rather than if the reported amounts are accurate. Before auditors are able to plan their tests they should obtain an understanding of internal controls for each major program beyond what GAGAS advises. First they need to identify the requirements assigned to each program by reading through the terms and communicating with the awarding agencies. These are what the controls are supposed to address. Then, aside from only talking to financial managers and observing controls, they should probably re-perform those procedures that are supposed to comply with the terms of the award. Walking through each step can expose weaknesses while also giving auditors practical experience in workings of the organization. After gathering all this information tests can be developed to assess the adequacy of the design and operation of internal controls and how well they adhere to compliance requirements. Generally inquiries, observations, and inspections are performed. Further guidance is found in the Committee of Sponsoring
Organizations’ (COSO) “Internal Control-Integrated Framework” and GAO’s “Standards for Internal Control in the Federal Government” as the OMB provisions are awaiting amendments [23]. No testing is required if the internal controls are downright ineffective or nonexistent; a significant deficiency or material weakness is reported in the audit findings [23]. The compliance audit should go more smoothly though if a clear report is given on internal controls. Auditors can use the documents provided by the nonprofit award recipient in good faith, knowing the financial processes allow for accurate reporting that follows the rules prescribed by federal agencies. Any misstatements regarding award balances should be cleared up by the financial statement audit. Now there is one less thing to worry about in the planning of the compliance audit.

The compliance audit is the reason why the Single Audit was created. Its purpose is to determine whether the nonprofit organization followed the Federal statutes, regulations, and terms and conditions related to each major program, proving to the Federal Government that its funds are being used according to their intended purpose [22]. OMB Circular A-133 “Compliance Supplement”, which has continually been updated unlike the document it is supplementing, is arguably the most important tool for auditors during the engagement; it compiles the compliance requirements for Federal award programs and clusters of programs into one source. There are twelve types of compliance requirements: (1) Activities Allowed or Unallowed, (2) Allowable Cost/Cost Principles, (3) Cash Management, (4) Eligibility, (5) Equipment and Real Property Management, (6) Matching, Level of Effort, Earmarking, (7) Period of Performance, (8) Procurement and Suspension and Debarment, (9) Program Income, (10) Reporting, (11) Subrecipient Monitoring, and (12) Special Tests and Provisions [22]. The Compliance Supplement describes audit objectives and suggested audit procedures related to each type. Requirements are
unique to each Federal program and are detailed in Part 4 and Part 5 of the supplement, so the general rules in Part 3 “Compliance Requirements” are described.

1. Activities allowed or unallowed are those that can or cannot be funded under a specific program. The compliance audit tests for whether awards were only expended on allowable activities under each major program.

2. Allowable costs, contained in 2 CFR part 200, subpart E “Cost Principles,” are those that can be covered by a Federal award. The basic guideline is that the cost is necessary and reasonable for the performance of the award, consistent with activities that are not federally financed, and adequately documented. Unallowable costs, to identify just a few, include entertainment costs, fines, and lobbying. Costs can further be divided into direct and indirect. Direct costs are relatively easily assigned to specific activities and thus directly allocated to a program; the audit tests for whether direct charges to major programs were only for allowable costs. Indirect costs are those costs left over that cannot be assigned to a particular activity. They were incurred for a joint purpose and thus must be allocated across programs using the simplified allocation method, multiple allocation base method, or direct allocation method. Indirect cost rate proposals (ICRPs) are prepared to claim reimbursement from the Federal government and facilitate the establishment of the federally negotiated rate to be used in allocation. Auditors test whether indirect costs to major programs were allowable, charged based on rates federally negotiated, and in accordance with conditions specific to each award.

3. To comply with cash management requirements, the nonprofit must minimize the time between the transfer of funds from the awarding agency and their disbursement to program costs. Transfer occurs using either the advance payment method or reimbursement payment
method. Advance payment refers to the awarding of funds before their use to cover program costs; auditors test the elapse of time between receipt and use of awards related to major programs. Under reimbursement, program costs are paid before requesting the award of funds; supporting documents are analyzed to test whether reimbursed costs were indeed incurred before their request.

4. Eligibility refers to the criteria that determine who can participate in programs and how much of the award they qualify for. Requirements are unique to individual Federal programs, and thus different procedures are used to test if participants receiving the benefits of the award were truly eligible under each major program’s terms.

5. Equipment and real property associated with allowable award activities must be supported by thorough records and maintained by adequate safeguards. When no longer needed for its federally authorized purpose, guidance for disposition is obtained from the awarding agency which always provides procedures for competitive sale and terms of compensation. The compliance audit verifies the physical inventory of property associated with each major program and tests the adequacy of records and maintenance; it also tests dispositions during the period for adherence to major program instructions, including whether the agency was properly compensated for its participation in the property’s cost.

6. Matching, level of effort, and earmarking involve thresholds that Federal award recipients must meet. To deter nonprofits from relying on easy handouts from the government, awarding agencies can require recipients to match the Federal funds they receive with separate contributions; auditors test that the required minimum amount or percentage was met with income from allowable sources to match applicable funds. Award agencies sometimes require that a specific level of service be provided or a specific amount of
expenditures on certain activities be maintained during the period; auditors verify the level of effort for major programs by vouching to financial documents or other official records.

Lastly earmarking is holding a portion of the award aside for specific activities; transactions applied to meet this requirement under major programs are tested for proper classification.

7. Only costs incurred during the period of performance, a range of dates specified by the Federal agency, are allowed to be applied to the award. Auditors test the costs recorded at the beginning of the period for every major program to verify they were not actually charged prior to the start date; they also look to see that obligations charged at the end of the period were paid within a reasonable amount of time.

8. The procurement and suspension and debarment compliance requirement involves contracts for procurement of external goods or services. Nonprofits, when seeking goods or services that are to be covered by an award, are instructed to allow open competition and perform a cost analysis for each proposal before awarding a contract. The selected contractor must demonstrate accountability, cannot be suspended or debarred, and also cannot be explicitly prohibited by the government as listed in the “Excluded Parties List System.” Audit procedures probably involve sampling contracts for procurements charged to major programs, examining related selection rationale and contractor data for compliance with the terms of the Federal award.

9. Program income is directly generated by activities supported by an award or can be proven as resulting from the award by some other method. Income can be applied to a Federal program by means of three methods: deducting the amount from total allowable costs to reduce Federal funds committed, adding the amount to total funds with approval from the Federal agency, or using the amount to meet matching requirements. The audit objective for this
requirement is to certify that program income is recognized correctly and used in accordance with the terms of each major program.

10. Nonprofit recipients are required to submit financial, performance, and other special reports relating to Federal awards as specified in the terms of the program. Auditors examine the methodology used to compile data, perhaps recalculating balances or tracing to related reports, to test for compliance to reporting standards of major programs.

11. Federal agencies do not always give funds directly to the entity performing supported activities but instead transfer large amounts of money to pass-through entities (PTE) for subsequent disbursement to subrecipients. The PTE is responsible for monitoring the use of Federal funds so that it is in accordance with the terms issued by the awarding agency. Auditors make sure the PTE clearly stated applicable requirements at the time of transfer and reviewed the activities of the subrecipient, following up when necessary, for assurance of the proper use of funds.

12. Special Tests and Provisions are unique to each Federal program. The award terms of each major program should be reviewed to understand these specific requirements.

After auditors have trudged through those complex compliance requirements and have completed the compliance audit for each major program, only The Schedule of Findings and Questioned Costs is left. It consolidates everything auditors learned while preparing the previous components into three sections. First auditors’ results are summarized, giving general information about the audit and its conclusions. The process for determining the compliance audit’s scope is described by identifying major programs tested, the threshold used to distinguish Type A and Type B programs, and whether the organization qualified as low-risk. This information helps the federal government determine if the proper steps were taken by the CPA in
conducting the audit, and it also allows users to see which programs were not audited. Auditors also state their opinions for the financial audit and the compliance audit; respectively, these relate to the financial statements’ accordance with GAAP and major programs’ compliance with rules and regulations [23]. The issued opinions are supported by statements identifying deficiencies in internal controls, noncompliance, and findings discovered during both audits [23]. These are described in more detail within the next sections.

The second section of the Schedule of Findings and Questioned Costs discloses findings related to the financial statements [23]. A GAGAS financial audit follows GAAS reporting standards, adding a few extra requirements relating to federal laws and regulations [21]. Auditors identify specific misstatements discovered in the financial statements as well as internal control deficiencies [23]. Under GAAS these issues occur when the organization does not follow GAAP; during a Single Audit under GAO guidance, these issues are also instances of noncompliance with laws and regulations covering federal awards [21]. Misstatements are differences in the way amounts are reported on the financial statements as opposed to how FASB standards or program requirements prescribe their treatment [1]. If misstatements are present, internal controls are likely to be dysfunctional as they can prevent, detect, or correct fraud or errors that cause these issues [1]. Only deficiencies that are material weaknesses—those that cause a reasonable possibility for misstatement—or significant—those that are less severe but still require attention—must be included [17]. Every mistake is disclosed in this section in the hopes that it will be corrected in the future. However they are reflected in the issued financial statements and thus support the reasoning behind auditors’ opinions on the accuracy of the organization’s reporting.

While the dependability of financial statements is important for evaluating the organization’s performance, the primary reason a Single Audit was performed was to determine
how well the nonprofit followed the rules and regulations of the federal awards it received. If
issues in managing funds were discovered during the compliance audit, they are described in the
third and final section of the Schedule of Findings and Questioned Costs [23]. Again auditors
identify internal control deficiencies, this time covering the use of awards rather than how they
are reported [23]. When an organization purposefully uses an award improperly but does not
necessarily break any rules, these are instances of abuse and obviously must also be disclosed
[21]. The bulk of the audit involves testing for compliance requirements given by the rules and
regulations attached to major programs. The results, any material noncompliance, are finally
listed here [23]. Breaking allowable cost requirements, usually if a transaction is not adequately
documented or seems unreasonable, incurs questioned costs [17]. If auditors can specifically
identify them, known amounts greater than $25,000 are supplied [23]. Federal agencies can use
this information to reclaim unsupported expenses. The findings already described should explain
the opinion issued on the compliance of each major program. However if other circumstances
exist, including known or likely fraud not yet presented, they should also be offered as evidence
[23]. With the results of the compliance audit now stated, every portion of the audit has been
included in the Schedule of Findings and Questioned Costs.

Sufficient detail and clarity within this document is crucial to the later development of the
Corrective Action Plan [23]. Users need enough detail in order to act upon issues, so specific
guidance is given as to how findings should be laid out. CFDA, Federal award, and Federal
agency identification is attached to major programs to assist in the easy reference of
corresponding information [23]. To support audit findings and questioned costs, the rule or
regulation that was broken is explained along with how the amount was computed [23]. With this
context users can make their own judgements as to whether auditors made the right decision.
However their decision is further backed with a description of the deficiency’s condition, what caused it, and its effect. If the root of the problem is found it can be corrected, its impact on the organization or the community motivating management to bring about a solution. Solving an issue is easier if auditors determine it to be an isolated instance, simply a one-off mistake. However systemic problems have deeper roots in the overall management of the organization and thus could result in repeated findings; therefore these cases are identified so significant reforms can be implemented. Auditors can offer their own recommendations on how to prevent these findings in the future. This is not their job though—the OMB only requires them to provide the results of the Single Audit. Summarizing the entire audit process and the conclusions reached in the Schedule of Findings and Questioned Costs rounds out the Auditor’s Report. The auditors’ main role in the Single Audit has been executed.

All instances of misstatements in the financial statements and noncompliance with the requirements of federal awards have been revealed. If auditors found nothing of material interest, then the nonprofit organization is in great shape. The awarding agency and Federal government can be assured that award funds are being spent according to their intended purpose. However when material findings are present, just disclosing them is not enough. For the Single Audit to truly be valuable, the auditee must consider the issues present in the organization’s management and start working towards solving them. Though the award recipient is not currently managing federal awards correctly, the government needs to confirm that steps are being taken to remedy the deviation from requirements. With the completion of the independent CPA’s responsibilities, information has now been gathered during audit testing regarding issues with reporting procedures, internal controls, and compliance requirements. The nonprofit uses this to create the Corrective Action Plan, addressing every audit finding laid out in the Schedule of Findings and
Questioned Costs\textsuperscript{[23]}. It is a very detailed document, creating a meticulous guide for the nonprofit to follow back towards compliance. Findings are explained by describing how the nonprofit is deviating from what should be happening and the effect this has, not only on the organization, but on the public it is serving\textsuperscript{[26]}. Including consequences showcases the importance of the situation, pushing all parties to find a solution. They pinpoint the underlying cause to focus on the root of the problem; usually it involves an internal control or other process\textsuperscript{[26]}. Adjustments are made so future misstatements or noncompliance are detected and corrected, preventing future occurrences. Achievable actions are simple and utilize available resources. What can reasonably be accomplished in the shortest amount of time is considered. Individuals responsible for executing the corrections are explicitly listed so they can be held accountable\textsuperscript{[23]}. Progress can also be monitored by following the timeline laid out in the document, setting deadlines for the nonprofit to follow through with\textsuperscript{[26]}. Sharing the plan for corrective action invites outside parties to become involved; they can offer their own advice or assistance on proposed solutions, communicating with the included contact to ensure their words are heard and they are receiving accurate information. The Corrective Action Plan sets completion dates for each audit finding referenced from the Auditor’s Report\textsuperscript{[23]}. Oversight officials view this document as evidence that the nonprofit organization is invested in the Single Audit, aware of the status of financial management, and complying with the terms of its award by fixing mistakes. It demonstrates the nonprofit’s integrity.

Corrective actions may not be fully executed within a year. Though the government wants the organization to solve problems quickly, they must also be solved thoroughly. Band-Aids thrown over audit findings are a waste of time. They might satisfy wronged parties by paying them back for misused funds or satisfy reporting regulations by updating balances with
accurate amounts, but they don’t stop the issues at their source. The same findings will keep popping up if problems with the nonprofit’s management of federal funds are not addressed. Updating computer systems or the way employees process transactions will take time; there is a period of adjustment to these changes before they can be properly implemented. The award recipient is required to report its progress in correcting audit findings, proving the Corrective Action Plan was not full of false promises. The status of every uncompleted plan over the years is compiled in the Summary Schedule of Prior Audit Findings, a necessary component of the Single Audit reporting package\textsuperscript{[23]}. Auditors examine this document during the financial statement audit as a base for compliance risk, looking for the aspects of the organization that have yet to be fully corrected and thus are likely still producing material issues. The auditee explains the reoccurrence, describing why the finding has not been entirely solved\textsuperscript{[23]}. Federal agencies are in charge of deciding whether the justification is acceptable; if the nonprofit is following the deadlines in the predetermined timeline then there should be no reason to worry. Findings recently solved are listed so auditors can test that the finding has actually been corrected, removing it from the list of issues Federal agencies need to worry about\textsuperscript{[23]}. Managing federal awards is not an easy task and mistakes are bound to occur due to the many complex requirements attached to agreements. The Summary Schedule of Prior Audit Findings is not an embarrassing blight on an organization’s record. If prepared with earnest intentions, it facilitates oversight and demonstrates the nonprofit’s cooperation with the purposes of the Single Audit. Through the Summary Schedule of Prior Audit Findings and Corrective Action Plan, the government can be assured of the award recipient’s commitment to complying with the intentions of federal funds.
All seven documents prepared during the Single Audit have finally been discussed: Statement of Financial Position, Statement of Activities, Statement of Cash Flows, Schedule of Expenditures of Federal Awards, Auditor’s Report, Corrective Action Plan, and Summary Schedule of Prior Audit Findings. They are electronically submitted to the Federal Audit Clearinghouse (FAC)\textsuperscript{[23]}. Nonprofits often share this responsibility with the independent CPA. On the FAC’s website a “profile” for the audited entity is created with shared access given to the public accounting firm conducting the audit engagement and the financial officers of the entity. The reporting package cannot be submitted simply as pdfs; the Federal government wants the information presented in a very specific format for ease of review. Instead the FAC website provides tabs of tables with empty data fields for completion. Every detail of reports submitted as a hardcopy to the entity must be copied onto the Federal Auditing Clearinghouse’s website account by account, line by line. Controls ensure that incomplete profiles cannot be submitted for review. Pop up errors for missing information must be tracked down. Though time consuming and finicky, the Federal government is guaranteeing every requirement imposed upon Federal awards is addressed in the Single Audit. To attain the ever sought after transparency, all information regarding the use of Federal assistance must be collected and relayed to relevant agencies, allowing comprehensive oversight of nonprofit award recipients.

The government does not have the time or resources to review every Single Audit submitted by award recipients. Obviously it is important for the performance of these nonprofits to be thoroughly monitored, though, to confirm taxpayer money is being spent on activities benefiting the public good. Therefore this responsibility is delegated to Federal agencies. Organizations expending more than $50 million a year in Federal awards are designated a Cognizant Agency for Audit by the OMB\textsuperscript{[23]}. This is the Federal awarding agency that provides
the largest percentage of total direct funding to the nonprofit, unless the OMB specifically assigns someone else. The chosen agency should have the most significant financial stake in the organization, meaning they’re very interested in the results of the audit. Sitting back and remaining independent from the audit is not an option. The Cognizant Agency for Audit’s obligations include communicating with the auditor, providing a greater depth of understanding for the rules attached to its award. These awards make up the majority of the nonprofit’s expenditures, the most major of all the major programs, so it is especially important for the agency to advise auditors on how best to discover noncompliance. When irregularities and illegal acts are found, the Cognizant Agency relays this information to appropriate parties. It works with both sides in the situation, assisting the nonprofit with corrective actions and the awarding agency with follow up actions. At this point the awarding agency assumes oversight responsibilities, able to focus in more closely than the Cognizant Agency which has a foot in every finding. It issues a management decision, a letter detailing the corrective actions decided upon, for every finding and monitors whether the organization executes them. If the recipient is not resolving the issue, then disciplinary action is necessary and the Cognizant Agency steps back in by notifying appropriate enforcement agencies. The Cognizant Agency for Audit is basically the spokesperson for all agencies involved; the OMB put one entity in charge of coordinating the Single Audit to reduce confusion. No one is left wondering who took care of a certain task—the Cognizant Agency is ultimately accountable. Behind the scenes every Federal awarding agency should be paying attention to the Single Audits for its funds, resulting in two layers of oversight an award recipient must pass through. A Single Audit is pointless if it only exposes the mistakes in executing Federal awards without prompting improvements.
increases with these agencies overseeing the aftermath of the audit, the intentions of this arrangement to catch all compliance issues and failures to resolve findings.

The OMB has plans for further improvements to the quality of Single Audits. It requires Federal agencies to aid the government in ensuring Single Audit guidance is effective and auditors are properly following it. In general, all awarding agencies, which provide the limitations on the uses of Federal fund, observe auditors’ tests of compliance requirements relating to their particular award. If they find that auditors are wasting time and resources testing inconsequential requirements, agencies are asked to devise updates to the Compliance Supplement that focus auditors’ attentions on aspects that are likely to produce fraud or abuse[^23]. The Compliance Supplement is not supposed to be a burden; many public accounting firms still view it as one even though it is updated every year. Taking the effort to break apart requirements and perform tests only to find nothing can cause auditors’ to become lax in their duties with their motivations waning. Goals of the OMB and Federal agencies are to clarify the supplement, getting to the point of requirements, so the Single Audit can be as streamlined and as efficient as possible. Hopefully this annoys auditors less and inspires their attention back to thoroughly ensuring compliance with the proper use of awards. The OMB is trying to move beyond just the Compliance Supplement and work to enhance general guidance. Starting in 2018 the government will implement a project to determine the quality of Single Audits to be performed once every six years[^23]. The Cognizant Agency for Audit is tasked with providing the data for this study which is estimating the extent that Single Audits actually conform to the prescribed standards. It observes all the engagements it oversees for quality control purposes and communicates the results to interested parties[^23]. Additionally, the Cognizant Agency’s close involvement allows insight into the needs and concerns of the auditor, auditee, and of course
awarding agency. That position is perfect for generating recommendations to improve procedures. Stewardship of taxpayer money is of the utmost concern which should comfort the public. Including oversight and mechanisms for revision into the directions for the Single Audit makes it worthwhile, ensuring award recipients are performing their recognized purpose and moving towards benefiting the public.

Improvements are necessary because noncompliance still slips through the cracks of the Single Audit. There are always cases in the news, though not always very prominent, about nonprofit organizations misusing Federal funds. Just last year, two Maryland nonprofits collected $1.5 million of improper reimbursements from the Department of Energy (DOE) and Maryland’s Department of Housing and Community Development. These awards were supposed to go towards weatherizing low-income homes. Instead, C&O Conservation and Maryland Energy Conservation intentionally committed fraud by using grant money on personal expenses like home renovations and travel. This issue should have been caught while testing for compliance requirement number 2 Allowable Costs, but this behavior occurred undetected over five years. The organizations were able to request extra money from the government by billing for higher quality materials in their home weatherization projects than they actually used; auditors are looking for allowable activities and this is obviously one. They also requested reimbursements for a line item “Supplies-Other” which hid expenses with no connection to supported programs. The problem with the Single Audits performed was a lack of in depth, thorough analysis of supporting documentation for expenditures. When there is a miscellaneous other category, auditors need to know what is included and see evidence. While doing walkthroughs and observing the activities of the organizations, auditors could have noticed that the materials documented in invoices were not present in inventory or completed projects. Some
fault also lies in the Federal agencies which accepted these documents at face value as a measure for reimbursements. The DOE admitted to oversight weaknesses which allowed improper payments\footnote{15}. The OMB provides separate requirements in the Compliance Supplement for each government department, including of course the DOE, because the supported programs will be different and thus demand a different focus. Going forward, as instructed in oversight duties, the Allowable Costs requirements should be marked by Federal agencies as one that needs particular attention for nonprofit organizations receiving DOE awards; auditors should be advised to examine the accounts and documents involved in this case as the improper behavior can easily be repeated in these arenas. The OMB asks for help in oversight so these situations can be addressed, with all parties collaborating to make improvements that tailor requirements to the type of award, helping auditors work efficiently and resulting in a Single Audit that better detects fraud.

Not all award recipients are out there to intentionally defraud the government. The Single Audit searches for noncompliance, but a financial audit and review of fiscal management is still a part of the audit. Apparently it is often ignored, probably due to the larger portion of compliance guidance taking up auditors’ visions, because cases of nonprofits losing huge amounts of the government’s money with poor financial decisions are many. Last year one of the largest social service organizations in the country, New York’s Federation Employment and Guidance Services (FEGS), filed for bankruptcy to relieve its $19.4 million debt\footnote{9}\footnote{20}. At the time of its closing it had $202 million in multiple-year contracts with agencies, awarded by the city to provide sick, disabled, elderly, and impoverished citizens with job placement services\footnote{20}. The government was forced to quickly find replacement providers to offer these necessary services—FEGS was a vital part of the community that nobody foresaw failing\footnote{16}. However
auditors truly focusing on compliance issues should have caught the first sign when testing for requirement number six Level of Effort. For several years the organization was not meeting performance milestones included in its award contracts. If auditors had looked deeper into the cause, they would have found that activities were not fully performed because the government was not awarding enough money to cover costs, which is a whole other issue, and FEGS could not pay the left over expense because its money was tied up in other things. A number of investments drained finances and the nonprofit had to use loans and Federal grants to cover up its failure; this was technically allowed because these investments were mission-related. With no compliance issues present it is understandable that auditors did not catch the fiscal mismanagement, but FEGS’ poor performance should have indicated a need to thoroughly observe its use of awards. Additionally, an analysis of solvency would have been a good thing to include in the financial statement portion of the audit. Perhaps too much attention is given to compliance testing. True, the Single Audit was created so the government can ensure that nonprofits use Federal awards as directed in agreements. The Maryland case proves the compliance requirement’s importance; you do not want nonprofits wasting taxpayer money on personal expenses and not using it to benefit the community. Auditors are confirming responsible stewardship. What cannot be forgotten is that good stewards not only spend money correctly but also manage it well. The government needs to rely upon award recipients’ long term existence so they do not waste money building up an organization that will not be able to offer services for years to come. Searching for risky behavior should be included as a focus point during both audit and oversight procedures. Analyzing investments and other debts, current and noncurrent assets, and the financial system’s timeliness in recording cash flows might expose ineffective accounting practices and ill-advised financial decisions, allowing oversight agencies to step in
and remedy the situation before it gets out of hand and Federal funds are lost. This improvement to the Single Audit is very much needed. Assessing the competence of a nonprofit organization to hold government money safely is key to building trust, something that must exist when contributions are made.

Federal awards are a significant part of nonprofit revenue streams. Several people are interested in how the government is spending money—the OMB who helps the president set the budget, other Federal departments who want a bigger share of the country’s money, taxpayers who are the source of this money—therefore it is essential that the government can prove investments in nonprofit organizations are worthwhile. The Single Audit aids in this task, testing whether awards are spent responsibly on supported activities, comforting stakeholders. Nevertheless Federal aid is waning as the United States falls further into debt and there is pressure for the government to keep out of public services. Nonprofit organizations have to turn to private donors to cover lost awards and finance their operations. General contributions are not subject to the Single Audit, and, unlike public corporations, nonprofits actually are not required to undergo an audit at all. Unless donors request an audit, the only information external parties have to determine how donations are being spent is provided in the nonprofit’s Form 990 and financial statements. Activities can easily hide within these, so only those diligent in reading these documents can find any sort of assurance in the organization’s practices. Before making a contribution, the best advice given to donors is to thoroughly research the nonprofit. People who gave money to Cancer Fund of America, Cancer Support Services, and Children’s Cancer Fund of America failed to do so and are regretting it. These four nonprofits were charged by the Federal Trade Commission and all 50 states for stealing over $187 million from donors. They claimed to be charities but spent less than 3% of donations on the cancer patients they were
promising to service \[18\]. Instead the money benefited one man and his family who ran all the organizations, buying cars and trips and paying college tuition and gym memberships \[8\]. They evaded regulators by reporting over $200 million of nonexistent gifts in kind, masking high expenses with inflated revenues, and claimed to distribute them to international recipients as an excuse for not having goods on hand \[8\]. Even though financial statements were falsified and misleading, charity watchdogs still caught on to their unethical behavior years ago. Online rating systems repeatedly gave these cancer charities F ratings and warned donors not to give money. Unfortunately those people who were trying to be selfless did not do their due diligence and missed the message clearly found on the internet. It is incredibly sad that cancer patients missed out on much needed funds, but this entire situation serves as a lesson to not blindly give money to nonprofit organizations. Once donations are surrendered, contributors lose their control of how it is spent.

Donors do not always accept that their gifts are under the management and discretion of the nonprofit organization. Most of the time they have a specific purpose in mind when offering donations; the giving of funds can be contingent upon the performance of certain activities. When the organization accepts the money it is agreeing to comply with the wishes of the donor. But no one is checking for compliance; there is no Single Audit that tests every requirement of contribution agreements. Only donors are worrying about it. More and more often, if they are unhappy with the way the organization is using their donation, if it is deviating from their intentions for giving, they will ask for their money back. This right was bolstered by a prominent case against Princeton. In 1961 the Robertson Family gave the largest contribution to date to a single university, donating $35 million to Princeton’s Woodrow Wilson School \[3\]. This donation was intended to build public policy and international affairs programs that would put more
students in government positions, ultimately strengthening the United States with well-trained leaders[^3]. 50 years later when only 14% of graduates were entering government service, the Robertsons sued Princeton for their contribution back[^25]. Princeton maintains they did nothing wrong, that they used the donation to address the school’s evolving needs[^24]. The family however had a problem with direction the Woodrow Wilson school was heading[^3]. Robertson versus Princeton settled out of court for $100 million, a small sum compared to the $850 million endowment the donation had grown into[^3][^24]. If this had been a Federal Award, the university would have been obligated to pay the government back for not meeting the performance requirements in the award agreements. The Federal agency probably would have required periodic reports about the Woodrow Wilson School for oversight purposes. Instead the Robertson Family could not force the university to supply them with performance metrics every year; they had to remain involved in the operations of the school and pay attention to its financial activities on their own. More donors should be as vigilant in supervising contributions. Nonprofit regulators have too many entities under their oversight and too small a budget to guarantee ethical behavior and stellar stewardship for all of them; usually they will not even examine an organization unless they receive a tip first. Without the government’s involvement, the task of keeping nonprofit organizations accountable to the proper use of contributions belongs to the donors, no matter if it is a private corporation with many resources or a lone individual.

Recognizing that managing contributions sets a nonprofit organization apart from other corporations, the Financial Accounting Standards Board (FASB) requires separate reporting standards for not-for-profit accounting. Users of public corporation’s financial statements are stakeholders mainly interested in the bottom line of net income and owner’s equity. Therefore accounting requirements focus on accurately representing quarterly profits and losses. Already
stated in several different ways, the goal of a nonprofit is not to generate profits for its owners but rather altruistically use resources to further its mission. Owners are still benefited since the mission’s purpose is to serve the general public—the true owner of a nonprofit organization. Financial statements must allow all interested parties, the majority of which are not experts in financial reporting, to easily determine whether funds are allocated efficiently to activities related to its mission. Auditors conducting Single Audits as well as donors find this useful, not having to dig too hard for information about the amounts of Federal awards and other contributions and how they were spent. The FASB attempts to deliver a structure that allows for a heightened level of transparency. Right now the FASB is discussing a proposed Accounting Standards Update (ASU) that significantly changes the original nonprofit financial statement model that has existed since the early 90s [6].

The FASB’s improvements are focused on net asset classifications, operating expenses, and liquidity. Presently net assets are separated into Unrestricted, Temporarily Restricted, and Permanently Restricted. Under this system organizations do not think extra details are necessary as the categories imply that contributions will eventually become available or will never be available for use. Balance Sheet users do not know what these categories contain and the rules applicable to each separate contribution. The ASU proposes only two net asset classifications, Net Assets With Donor Restrictions and Net Assets Without Donor Restrictions [10]. Since these categories are broad, nonprofits will have to disclose information about the source and amount of donations and the restrictions attached [10]. Auditors will like having this information already laid out to assist in compliance testing; other users will be able to determine whether the organization is following donor intentions by examining other amounts in the financial statements and its general activities, judging reliable stewardship on their own. Another proposal to report
operating expenses by both function and nature will help in this task \[^{10}\]. Now operating expenses are all grouped into the General and Administrative functional category; this update will require nonprofits to break them up into natural categories such as rent and salaries, providing more information about the use of resources. Organizations are generally keen to showcase exactly what expenses their programs generate so they can get more money to support them and try to hide everything else within General and Administrative. Separating by nature allows auditors and even well-educated citizens to notice unreasonably high line items, raising suspicion. Perhaps the most useful suggestion in the ASU is including liquidity information in the notes of the financial statements so users can assess the long term financial health of the nonprofit \[^{10}\]. The state of New York would have benefited greatly if Federation Employment and Guidance Services had presented its current and noncurrent assets in comparison to future obligations. They would have realized that the organization was not sustainable. FASB’s proposed guidance requires nonprofits communicate how available liquid resources are managed to meet expenditures within the year, often influenced by the nature of assets, donor restrictions, and board designations \[^{10}\]. These disclosures expose the true level of solvency; they help potential donors determine whether the organization is able to keep and perhaps grow their contribution, making it worthy of their support. All of the proposed guidelines in FASB’s new ASU will let financial statements reveal the trustworthiness of a nonprofit since they optimize transparency in reporting. This is exactly what auditors and supporters demand, external parties wanting to know exactly how nonprofits operate to ascertain they are deserved of receiving tax breaks and cash handouts. Improvements to financial reporting can increase the amount of contributions because Federal agencies and donors are more willing to give to nonprofits that prove time and again their accountability.
Even though their name suggests otherwise, the main goal of nonprofits is to increase revenues. Directors will deny this, pointing to their missions detailing charitable, educational, or scientific purposes for existence. But these activities cannot be accomplished without resources. Since charging the public for their services can be a contradiction, nonprofits rely on the contributions of sympathetic parties. An effort almost equally important to offering services is soliciting donations from individuals, corporations, and the government. Accepting a contribution serves as an agreement to comply with any requirements attached. Now external parties are interested in the activities of the nonprofit, and organizations provide information through IRS Form 990 as evidence of responsible stewardship. The included financial statements are currently being improved to better represent expenses and liquidity, increasing transparency. However these reports are not required to be audited resulting in many instances of charity fraud or other misuses of contributions. Donors are the only ones monitoring nonprofits and donating is at their discretion. While the government makes it fairly easy for those individuals to be deceived, zero tolerance is given to noncompliance of its funds. Single Audits of Federal awards ensure taxpayer money is used for government supported purposes that benefit US citizens.

All nonprofit organizations exist to provide public services and are an essential part of the country’s wellbeing. Is it really fair that laws only hold nonprofits accountable to federal funds and not individual donors’ selflessly given contributions? Public companies are required to undergo audits that protect stakeholders from financial mismanagement. Why is it more important to ensure owners of corporations receive financial benefits than to ensure that contributions of donors, who expect no personal benefits, are not wasted? A thorough audit that holds nonprofits accountable to their missions should be required for all organizations, not just Federal award recipients. Tests for compliance to contributor wishes, a commitment to providing
public services, long-term sustainability must be performed by independent CPAs and monitored by a higher power to prevent fraud, dissolution, and bankruptcy. Nonprofit organizations affect the lives of everyone, not just direct participants in their activities. We want art to be preserved, students to be educated, nature to be protected, weather damage to be fixed, and sick people to be cured. Ensuring nonprofits are serving public interests is well worth the effort if their continuation is guaranteed, creating a country full of intelligent, happy, and healthy citizens.
References


