

**Instructions for Annual Federal Financial Compliance Report**  
**May 2002**

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## **OVERVIEW**

The Single Audit Act and Office of Management and Budget (OMB) Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations,” govern the auditing of Federal awards made to non-Federal entities.

A state or local government that expends \$300,000 or more in federal financial assistance must have a single or program specific audit made in accordance with the Single Audit Act and OMB Circular A-133.

A program-specific audit can be conducted when an auditee expends Federal awards under only one Federal program.

State or local governments that expend less than \$300,000 a year are exempt from the compliance with the act; however, records must be made available for review or audit by appropriate officials.

## **SUBMISSION OF REPORTS**

If required, the Single Audit reporting package should be forwarded along with the Annual Financial Report (AFR) to the Illinois State Board of Education. In addition, the complete Single Audit reporting package and a Data Collection Form must be submitted to the Federal Audit Clearinghouse within 9 months of the end of the audit period or 30 days after receipt of the audit report, whichever is earlier.

Federal Audit Clearinghouse  
1201 East Tenth Street  
Jeffersonville, Indiana 47132

An additional copy of the reporting package must be included for each federal agency **with findings**. If there are no findings only one copy of the reporting package needs to be sent to the Federal Audit Clearinghouse. A Data Collection form must be submitted as part of the Single Audit package. However, the Data Collection form should be a separate document and not bound within the reporting package. See the Federal Audit Clearinghouse web-site at <http://harvester.census.gov/sac/> to download copies of the Data Collection form.

## **SINGLE AUDIT REPORTING PACKAGE**

The single audit reporting package is comprised of:

- Financial Statements (including all applicable footnotes) of the entity. The Annual Financial Report Form ISBE 50-35 will suffice (Form 50-36 for Joint Agreements), and separate cover financial statements should also be included if available.
- Schedule of Expenditures of Federal Awards including Footnotes on Summary of Significant Accounting Policies and Federal Non-Cash Assistance.
- Auditor's opinion on the Financial Statements and Supplementary Schedule of Expenditures of Federal Awards.

- Report on Compliance and On Internal Control Over Financial Reporting Based On An Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
- Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133.
- Schedule Of Findings And Questioned Costs (Includes Summary Of Auditors Results).
- Summary Schedule of Prior Year Audit Findings.
- Corrective Action Plan.
- Data Collection Form (do not bind into the reporting package).

## **INSTRUCTIONS AND REQUIREMENTS FOR FEDERAL COMPLIANCE FORMS**

### **COVER SHEET**

A checklist has been added to the cover sheet. This checklist should help ensure that all of the required components have been included with the Single Audit portion of the report. Please insert an "x" in the box for each of the required components to show that they have been included.

### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)**

#### Requirements for SEFA

Federal financial assistance is any federal funds which were received or expended by the audited entity during the fiscal year. The Schedule of Expenditures of Federal Awards should include all federal funds by the entity whether received from the Illinois State Board of Education, another state agency, directly from a federal agency, or through a joint agreement or flow-through program.

On the Schedule of Expenditures of Federal Awards, each award should be identified by the type of program: major (M) or nonmajor (N), by the source of funding, program title, the account code number as illustrated in the Illinois Program Accounting Manual, Catalog of Federal Domestic Assistance (CFDA) number, project/agreement number and the grant year of the award if it is not part of the project/agreement number. The Schedule of Expenditures of Federal Awards for primary recipients with subrecipients should show the expenditures for the primary recipient, the subrecipients to whom federal funds were disbursed, and the expenditures which those subrecipients reported to the primary recipient. As suggested in the AICPA audit guide, there should be a subtotal of federal funds per granting agency and a grand total of all federal funds received from all sources.

The basis of accounting used by the auditee to prepare the SEFA is not prescribed by Circular A-133. The basis of accounting used to prepare the SEFA may differ from that which is used in the financial statements. However, the auditee must disclose the basis of accounting and accounting policies used in preparing the SEFA in the notes to the SEFA. Amounts in the SEFA must be able to be reconciled to amounts presented in the financial statements.

If the Annual Financial Report is filed on the modified-accrual basis, the Schedule of Expenditures of Federal Awards will indicate the expenditures reported in the Annual Financial Report. Cash-basis local education agencies will report cash disbursements reported in the Annual Financial Report plus any amounts considered to be obligated.

A separate line shall be used for each project number, fund or fiscal year.

All major and nonmajor programs must be included on the Schedule of Expenditures of Federal Awards (SEFA). Major programs, indicated as (M), must be identified as such on the SEFA.

**Instructions for Schedule of Expenditures of Federal Awards – Page 1**

Column Letter

Column Name and Description

Federal Grantor/Pass-Through Grantor, Program Title and Major Program Designation indicates where the funds originated, what entity passed the funds on, the program name and if the program was audited as a major program. This information must be included on the Schedule.

(A) Indicate the correct Catalog of Federal Domestic Assistance (CFDA) Number for federal receipts (cash basis) or revenues (modified-accrual basis) for each federal assistance program listed. The CFDA number may be obtained by referring to the "Chart of Accounts" in the Guide to Auditing and Reporting for Illinois Public Local Education Agencies, or the Catalog of Federal Domestic Assistance at [www.cfda.gov](http://www.cfda.gov).

(B) The ILLINOIS STATE BOARD OF EDUCATION Project Number/Federal Project Number may be obtained by referring to the latest approved project application, approved budget, or the Financial Reimbursement Information System Inquiry website at <http://206.166.105.128/FRISInquiry/>. (Use only the first 8 digits of the project number for Illinois State Board of Education projects). If a program is not administered by Illinois State Board of Education, then use the federal project or agreement number.

(C & D) Cash Receipts (cash basis) or Revenues (modified-accrual basis) for each federal project. The term receipts pertains to cash basis reports. The term revenues pertain to modified-accrual basis reports. Amounts should be listed separately for each project and fiscal year. The current year receipts/revenues should be the applicable portion of an amount reported in the Annual Financial Report.

(E & F) Expenditures (modified-accrual basis) or Disbursements (cash basis) for each federal project. The terms disbursements and obligations pertain to cash basis reports. The terms expenditures and encumbrances pertain to modified-accrual basis reports. Amounts should be listed separately for each project and fiscal year.

The current-year disbursement/expenditures should be the applicable portion of an amount reported in the Annual Financial Report. This amount might be negative if a prior year accrual was overstated and was run through the current year.

Disbursements are equal to actual cash paid out. Expenditures equal disbursements, plus accounts payable at the end of the period, less accounts payable at the beginning of the period.

For projects which extend past the end of the fiscal year or projects that had outstanding obligations/encumbrances at the end of the fiscal year, the prior year's expenditures/disbursements should be shown in Column E and the current year's expenditures/disbursements should be shown in Column F.

- (G) Encumbrances (modified-accrual basis) are commitments (orders placed, contracts or subgrants) that were made during the project for materials or services that will benefit the project, but have not been received or paid for at the end of the fiscal year (June 30) or project year end if different from fiscal year.

Obligations (cash basis) equal accounts payable plus encumbrances. At any point in time, an item cannot be both an account payable and an encumbrance.

Except for the audit fee, all accounts payable, encumbrances and obligations must be liquidated within 90 days of the end of the project.

The best information available at the time of the audit (especially subsequent payments or events) should be utilized to determine accounts payable, encumbrances or obligations.

- (H) Final status is the sum of Columns E, F, and G. This column total should agree with either the completion report or the liquidation report filed by the entity. Any differences should be footnoted and explained.

- (I) The Budget column should contain the total budget amount of the project from the latest approved budget amendment.

Important: For columns C through I, please round off all amounts to the nearest dollar.

NOTE: If any amounts in columns D and F are different from what was reported on the Annual Financial Report, then the Schedule of Expenditures of Federal Awards should be footnoted with an explanation or reconciliation presented.

### **Instructions for Schedule of Expenditures of Federal Awards – Page 2**

- o Include in the notes the significant accounting policies that were used in preparing the Schedule of Expenditures of Federal Awards.
- o If the auditee is a pass-through entity, identify the total amount provided to subrecipients.
- o List in the Schedule of Expenditures of Federal Awards or the notes, the value of federal awards expended in noncash assistance (loans and loan guarantees, insurance programs, surplus property, food stamps issued, commodities distributed).

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

OMB Circular A-133 requires the auditor to prepare a schedule of findings and questioned costs (SF&QC). Auditors should refer to OMB Circular A-133, Government Auditing Standards and SOP 98-3 for a complete discussion of reporting findings and completing a SF&QC.

A SF&QC must be prepared for every audit. If no finding and questioned costs are disclosed in an audit, the auditor should indicate in both the GAS (Section II) and federal findings (Section III) sections that no matters are reportable. Formal audit findings should be issued for all findings whenever a Single Audit is required.

The auditor's compliance report(s) should refer to the SF&QC where the factual data of all findings should be presented accurately and fairly and should include only information, findings, and conclusions that are adequately supported by sufficient evidence in the working papers.

The SF&QC should indicate the following three sections:

### **Section I: Summary of Auditor's Results**

The following should be reported in this section:

- The type of report the auditor issued on the financial statements (Unqualified opinion, qualified opinion, adverse opinion or disclaimer of opinion).
- Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses.
- A statement on whether the audit disclosed any noncompliance that is material to the financial statements.
- Where applicable, a statement that reportable conditions in the internal control over major programs was disclosed by the audit and whether any such conditions were material weaknesses.
- The type of report the auditor issued on compliance for major programs (unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- A statement on whether the audit disclosed any audit findings that the auditor is required to report under section 510(a) of Circular A-133.
- An identification of major programs.
- The dollar threshold used to distinguish between Type A and Type B programs (if applicable) as described in section 520(b) of Circular A-133.
- A statement on whether the auditee qualified as a low-risk auditee under section 530 of Circular A-133.

## **Section II: Financial Statement Findings**

This section identifies findings relating to the financial statements which are required to be reported in accordance with paragraphs 5.18 through 5.20 of GAS. Each finding shall be reported on a separate page(s). The following should be reported in this section:

- All reportable conditions in the internal control over financial reporting.
- Other findings relative to the audit of the financial statements that are required to be reported by GAAS, and GAS, including those that do not affect federal awards.
- All instances of fraud and illegal acts that the auditor concludes, based on the evidence obtained, either occurred or are likely to have occurred. Whether the instances were direct acts or by mistake, these items still need to be reported to the ISBE.
- Other noncompliance that is material to the financial statements.
- The status of uncorrected material findings and recommendations from prior year audits that affect the financial statement audit.
- Material findings and recommendations from previous audits that are repeated as current-year findings (identify as repeat findings by indicating prior repeated finding reference number).
- The status of uncorrected findings from previous audits that are not repeated as current-year findings.
- Immaterial findings (management issues required to be reported by ISBE) that relate to the financial statements.

GAS suggest that well developed findings include the following four elements:

1. Criteria
2. Condition
3. Effect
4. Cause

GAS recognize that all elements may not be fully developed, but recommends the auditor at the least, identify the criteria, condition, and possible asserted effect.

### Section III: Federal Award Findings and Questioned Costs

Each unique finding shall be reported on a separate page(s). The following should be reported in this section:

- All reportable conditions in the internal control over major programs.
- Material non-compliance with the provisions of laws, regulations, contracts, or grant agreements that are related to a major program.
- Known questioned costs for a type of compliance requirement for a major program.
- Known questioned costs for programs that are not audited as major programs.
- Immaterial findings (management issues required to be reported by ISBE) that relate to federal awards.

Audit findings and questioned costs for federal awards (for example, internal control and compliance findings, questioned costs or fraud) that relate to the same issue should be presented as a single audit finding.

All federal findings should include the following eight components:

1. Identification of the federal program(s) and specific federal award including the CFDA title(s) and number(s), the federal award number and year, the name of the federal agency and the name of the applicable pass-through entity. **Please do not indicate "Various" or "All".**
2. The criteria or specific requirement upon which the audit finding is based, including the statutory, regulatory, or other citation.
3. The condition found, including facts that support the deficiency identified in the audit finding.
4. Identification of questioned costs and how they were computed. Include the total amount of questioned costs by project. If more than one project is affected, list questioned costs separately. **IMPORTANT: If the criteria (#2 above) indicates that a cost is unreasonable, unallowable, undocumented or unapproved, there should be questioned costs. Include only the part of the cost that is questioned.**
5. Information to provide a proper perspective for judging the prevalence and consequences of the audit findings.
6. The possible asserted effect to provide sufficient information to the auditee and federal agency or pass-through entity, to permit them to determine the cause and effect, to facilitate prompt and proper corrective action.
7. Recommendations to prevent future occurrences of the deficiency.
8. The views of the auditee when there is disagreement with the audit finding.

Although the term is not defined, "questioned costs" generally are those that, in the opinion of the auditor, may not comply with or may not be consistent with the requirements set forth in contracts, awards, statutes, or regulations governing the allocability, allowability, or reasonableness of costs charged to specific awards, programs, or activities. The following criteria should be used for questioning costs:

- Unallowable Costs - These include pre- and post-grant costs, travel or per diem costs in excess of federal rates and other expenditures in excess of approved award budget.
- Undocumented Costs - Costs charged to a federal program for which adequate documentation does not exist to demonstrate relationship to the program, amount, purpose or time periods.
- Unapproved Costs - Costs not in approved budget, or costs which require awarding agency's approval but for which auditor finds no evidence of approval.
- Unreasonable Costs - Costs that may not reflect action a prudent person would take; e.g., assigning high valuation to in-kind contribution, etc.

All findings in Section II and III must be presented in sufficient detail for the auditee to prepare a corrective action plan and to take corrective action and for federal agencies and pass-through entities to arrive at a management decision.

Audit findings that relate to both the financial statements and the federal awards should be reported in both sections of the schedule. However, in one section of the schedule the reporting may be in summary form, with a reference to the other section of the schedule.

For easy referencing, each audit finding in Sections II and III of the SF&QC should include a reference number. For findings identified in the fiscal year being audited, use the last two digits of the fiscal year being audited, followed by a numeric sequence. For example, findings identified and reported in the audit of fiscal year 2002 would be assigned reference numbers 02-1, 02-2, 02-3, etc.

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (SSPAF)**

OMB Circular A-133 requires the auditee to prepare a SSPAF. The SSPAF should be prepared even if there are no prior year findings. The SSPAF would indicate "NONE" to indicate that no matters are reportable.

The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings that were previously listed as corrected, no longer valid or not warranting further action.

1. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
2. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
3. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.
4. When the auditee believes the audit findings are no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - a. Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse,
  - b. The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
  - c. A management decision was not issued.

THE SSPAF should include the following:

- The finding reference number assigned by the auditor in the SF&QC. This reference number should include the fiscal year in which the finding initially occurred
- Status of all findings included on the prior year's SF&QC.
- Audit findings from the prior year's SSPAF, unless listed as corrected.

OMB Circular A-133 and GAS require auditors to follow up on prior audit findings. OMB Circular A-133 requires the auditor to determine the reasonableness of the SSPAF prepared by the auditee, and report, as a current-year audit finding, when the auditor concludes that the SSPAF materially misrepresents the status of any prior audit finding.

### **CORRECTIVE ACTION PLAN (CAP)**

OMB Circular A-133 requires the auditee to prepare a CAP which addresses each audit finding included in the current year's auditor's reports. The corrective action plan is to be completed as a component of the Annual Federal Financial Compliance Report and must accompany the audit report. Corrective action (if applicable) regarding each finding and recommendation in the Schedule of Findings and Questioned Costs should be addressed in the corrective action plan.

The CAP should include the following:

- The finding reference number assigned by the auditor in the schedule of findings and questioned costs (SF&QC). This reference number should include the fiscal year in which the finding initially occurred.
- A brief synopsis of the finding.
- Plan of action. Specific procedures to be used in order to correct the deficiency should be outlined. The plan should also include a time frame for implementation of the procedures. This time frame should not exceed six months from the date the audit report is due at the Illinois State Board of Education. If corrective action is deemed unnecessary, a statement describing the reason should be included.
- Name of contact person responsible for implementation.
- An explanation giving specific reasons if the auditee doesn't agree with the finding or believes that corrective action is unnecessary.

The auditor may assist the auditee in developing appropriate corrective actions in response to audit findings and may find the CAP useful in performing follow-up on prior audit findings.

The auditee needs to provide the auditor with both the SSPAF and CAP for inclusion in the reporting package. The CAP should immediately follow the finding.

If the plan is deemed unacceptable, the Illinois State Board of Education will notify the local education agency requesting a revised or corrected plan. In addition, the responsibility for reviewing the completeness of the corrective action plans will also apply to the primary recipients of federal financial assistance when a primary/subrecipient relationship exists.

Comments on the actions taken on prior unresolved findings should also be included in the report. Unresolved prior year findings must be repeated on a current year Schedule of Findings and Questioned Costs and Corrective Action Plan.

## **WEB ADDRESSES & CONTACT INFORMATION**

Audit Guide will be available at <http://www.isbe.net/funding/A133.htm>

CFDA Numbers <http://www.cfda.gov>

Financial Reimbursement Information System Inquiry (Project and Payment Information)  
<http://206.166.105.128/FRISInquiry>

OMB A-133 Circular <http://www.whitehouse.gov/omb/circulars/a133/a133.html>

OMB A-133 Compliance Supplement  
[http://www.whitehouse.gov/omb/circulars/a133\\_compliance/02toc.html](http://www.whitehouse.gov/omb/circulars/a133_compliance/02toc.html)

Illinois CPA Society <http://www.icpas.org/icpas/index.asp>

AICPA <http://www.aicpa.org/belt/a133main.htm>

Funding and Disbursement Services Division  
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Questions on the A-133 can be directed to:

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