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Single Audit Update

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Agenda

- Internal Controls
- 2026 Compliance Supplement Expectations
- Proposed Uniform Guidance Changes

Internal Controls

Stories of Internal Control Failures

Controls rarely fail all at once — they erode gradually

A missed reconciliation, an unapproved payment, an unapproved vendor, a trusted employee

The most common thread: "we didn't have a process for that"

Patterns We See in the Field

Manual approvals replaced by email — sometimes undocumented, hard to audit

Corporate credit card usage growing without enhanced oversight

Increased digital payment systems (Zelle, Paypal, Venmo)

System access not reviewed regularly — roles not deprovisioned

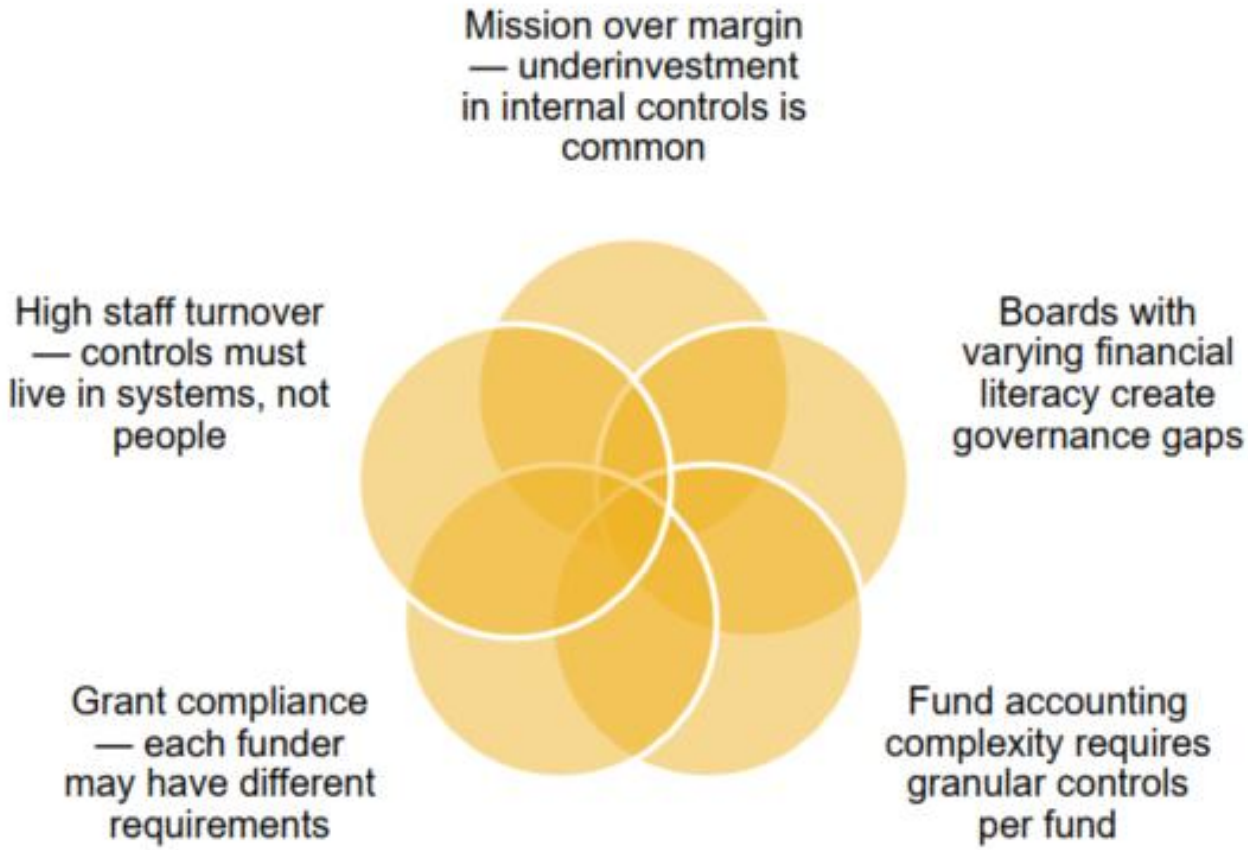
Vendor accounts added without rigorous vetting

Grant growth creating pressure on compliance controls

Remember: policies only protect you if they are current, enforced, and understood

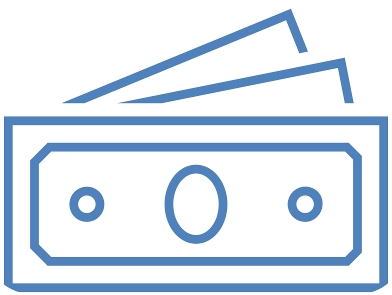
Designing Controls

The Nonprofit Control Environment

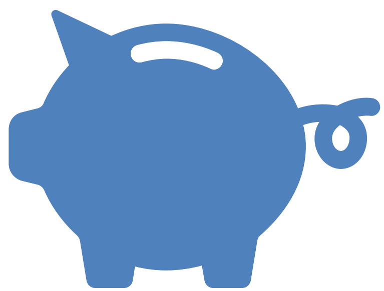


Four High-Risk Transaction Areas

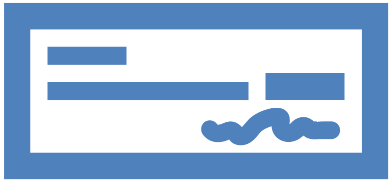
Well designed controls in these four areas address most nonprofit fraud



Cash Disbursements – Authorization, Approvals, Vendor Management



Program Disbursements – Grant Expenses, Subrecipient Monitoring



Cash Receipts & Donations – Incoming Funds, Restricted Gift Tracking

Financial Reporting – Allocations, Period-End Close, Net Asset Releases

Cash Disbursements: Designing Fraud-Resistant Controls

Segregate duties: requester, approver, and check releaser must be different people

Require dual authorization above defined dollar thresholds

Maintain an approved vendor master list — board approval for new vendors

Positive pay: confirm each check electronically before it clears

Monthly reconciliations reviewed by someone outside the disbursement process

Credit card controls: individual limits, prohibited categories, monthly review

Program Activities and Disbursements

- Require invoices and supporting documentation before payment release
- Subrecipient monitoring: site visits, financial reports, eligibility verification
- Separate program expense approval from accounting entry
- Budget-to-actual at grant level: flag variances over 10% for management
- Time and effort documentation for salary allocation (critical for federal grants)

Cash Receipts & Donation Management

- Two people open mail together; log all checks immediately upon receipt
- Person receiving donations must not also post entries — no single handler
- Same-day or next-day bank deposits; compare deposit slip to check log
- Document donor intent at receipt; flag restrictions immediately
- Reconcile online giving platform to the general ledger monthly

Financial Reporting: Allocations, Consolidations & Eliminations

- Functional expense allocation: document and consistently apply methodology
- Inter-fund transactions: require supporting schedules and formal elimination
- Period-end close checklist: assign ownership, require sign-off before reporting
- Management review of draft financials vs. prior period and budget
- Net asset releases: require written authorization before recognizing

Segregation of Duties

Four categories that must never be combined in one person:

Authorization — approving transactions, vendor additions, journal entries

Custody — physical possession of assets (checks, cash, inventory)

Recording — entering transactions into the accounting system

Reconciliation — comparing records to independent sources

Segregation of Duties for Small Accounting Teams

2-Person Team:

- One person handles transactions; the other reviews, reconciles, and approves
- board treasurer provides oversight

3-Person Team:

- Controller reviews/approves; one accountant handles AP; one handles AR — cross-review monthly

4-Person Team:

- Full separation: custody, recording, authorization, and reconciliation are separate roles

All sizes: board approval of large disbursements as a compensating control

Segregation of Duties – Two people

Accountant or other professional staff*	Executive Director
• Mails checks • Writes checks • Reconcile bank statement • Record debits / credits • Process payroll • Disburse petty cash • Authorize purchase orders • Authorize check requests • Authorize invoices for payment	• Receives and opens bank statements • Signs checks • Make deposits • Perform interbank transfers • Approve payroll • Review petty cash • Review and approve bank reconciliations • Approve vendor invoices • Perform analytical procedures • Sign important contracts • Make compensation adjustments • Discuss matters with board or audit committee • Review wire/ACH transactions • Review account activity

*Non-accounting personnel such as receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties

Segregation of Duties – Three people

Accounting Staff

- Writes checks
- Reconcile bank statement
- Record debits / credits
- Reconcile petty cash
- Process payroll

Accountant / other*

- Approve payroll
- Process vendor invoices
- Mail checks
- Approve invoices for payments
- Disburse petty cash
- Open mail and log cash
- Receive bank statements

Executive Director

- Sign important contracts
- Make compensation adjustments
- Sign checks
- Complete deposit slips
- Perform interbank transfers
- Perform analytical procedures
- Review and approve bank reconciliation
- Review wire/ACH transactions
- Review account activity

*Non-accounting personnel such as receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties

Segregation of Duties – Four people

Accounting Staff

- Writes checks
- Reconcile bank statement
- Record debits / credits
- Reconcile petty cash

Accountant / other*

- Process payroll
- Disburse petty cash
- Open mail and log cash
- Mail checks
- Review bank reconciliation

Accountant / other*

- Approve vendor invoices
- Perform interbank transfers
- Approve payroll
- Complete deposit slips

Executive Director

- Sign important contracts
- Make compensation adjustments
- Sign checks
- Perform analytical procedures
- Review wire/ACH transactions
- Review account activity

*Non-accounting personnel such as receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties

Strengthening Your Control Environment

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When to Revisit Your Controls

Triggers for an immediate control review

Staff changes — new hires, departures, or restructuring in financial roles

System changes — new accounting software, or banking transitions

Significant growth — new programs, funding sources, or geographic expansion

Audit findings — material weaknesses, significant deficiencies, or management letters

Keeping Policies and Procedures Alive

A policy in a binder no one reads is a liability, not a control

Establish consistent processes that survive staff transitions

Support continuity and clear expectations for new employees

Make the implicit explicit — reduce reliance on institutional memory

Review and update policies annually; date-stamp every version

Access and Security Controls

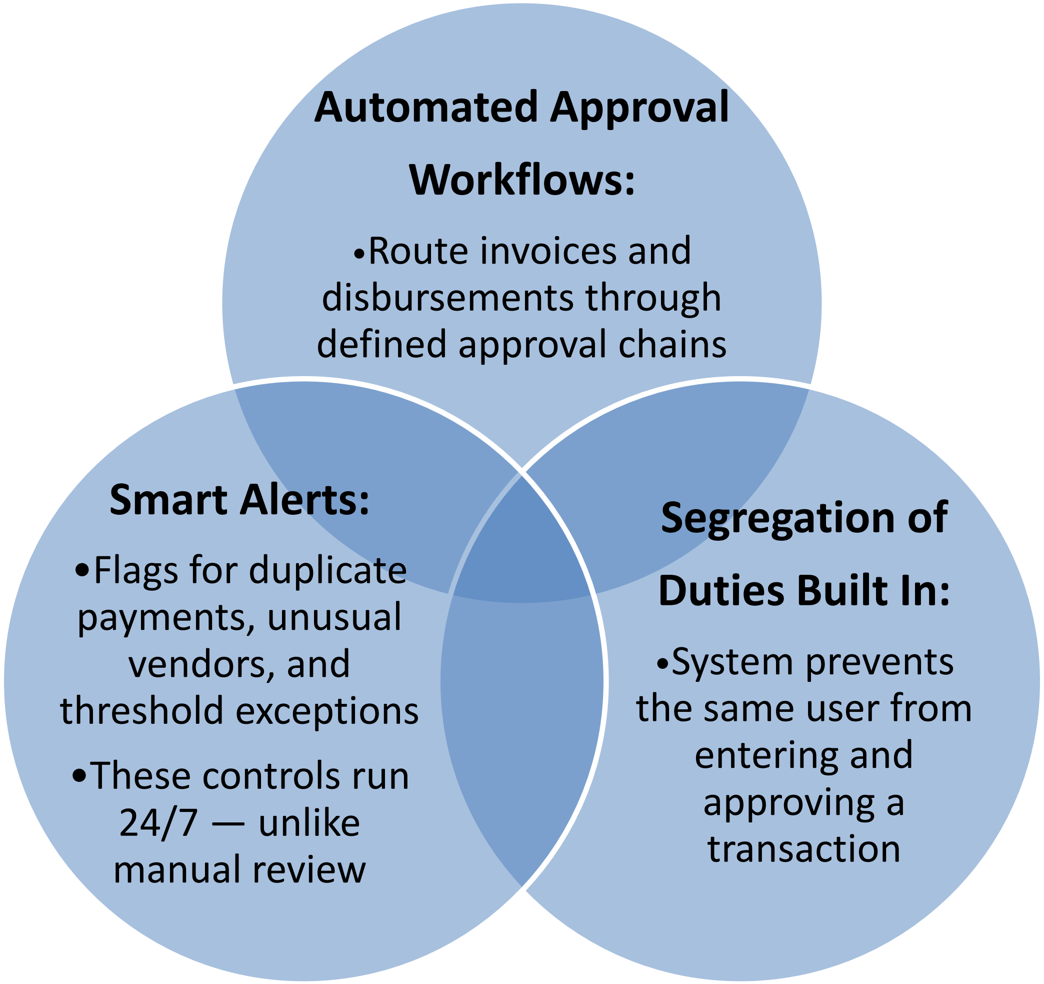
Role – Based Access:

- Limit system access to what each role requires — review quarterly
- Terminate access immediately upon employee departure

Security Policies:

- Multi-factor authentication for all financial systems and email
- Password policies, phishing training and incident response plan

Technology – Enabled Controls



Auditing Internal Controls

What Auditors are Looking For

- Financial accuracy and compliance – reliable, complete reporting
- Control design AND operating effectiveness
- Material weaknesses – deficiencies significant enough to affect the opinion
- Risk assessment – have you identified fraud risks and addressed them?
- Independent validation – can one person circumvent the control

The Auditor's Approach to Understanding Your Controls

- Inquires of management: who does what, and how are approvals documented?
- Walkthrough procedures: trace a transaction from initiation to recording
- Observation: are controls actually being performed as described?
- Review of documentation: signed approvals, reconciliations, board minutes
- Best practice: document your controls before the auditor arrives

Testing Design and Effectiveness

Testing Design:
- Is the control capable of preventing or detecting material misstatement?

Testing Effectiveness:
- Is the control actually being performed? By the right people?

Common Testing Methods

- Sample inspection of transactions, approvals, and reconciliations
- Re-performance: auditor performs the control themselves to verify

What Audits Can – and Can't – Guarantee

What a clean opinion provides:

- Reasonable assurance – financial statements are free of material misstatement
- Evaluation of whether controls appear adequate for audit purposes
- An independent professional perspective on financial reporting

What an audit does NOT provide:

- A guarantee that no fraud has occurred
- Assurance on every transaction – audits are sample based

2026 Compliance Supplement Expectations

Single Audits in Compressed and Uncertain Environment

Year	# of Single Audits	# CSLFRF
2019	37,253	-
2020	40,173	7
2021	45,877	1,516
2022	47,694	5,848
2023	47,232	7,428
2024	44,731	7,513
2025*	27,470*	2,576*

* Partial year

CSLFRF Remains the most frequently audited program in 2022 – 2025*

2025 Compliance Supplement delay
Delayed issuance created significant compression on timing and compliance with deadlines

Uncertainty
Policy changes, shifting funding priorities, legislative impacts (e.g., OBBA), Indirect Costs, Impact of AI

Uniform Guidance changes
2024 UG Revision nuances, 2026 UG updates

2026 Supplement expectations
Potentially later timing, changing higher-risk designations, ALN realignment and program edits

Changes to programs
Certain grant programs have been terminated, rescinded or transferred to other federal agencies creating confusion

2026 Compliance Supplement Expectations

- OMB has not yet issued the Supplement
- Once issued it will be effective for audits of fiscal years beginning **after** June 30, 2025
- Anticipate the Compliance Supplement will be posted on OMB's website

2026 Compliance Supplement Expectations

- Limited scope review process – only statutory and regulatory updates
- Realigned/Decoupled programs – this is when the agency creates separate ALNs for an existing program. There are several expected in the 2026 Compliance Supplement
  - Not considered new programs as no new funding is involved. Treated as a cluster
  - Realignments are made for agency reporting purposes
  - For lookback requirements, these programs will still be considered to have been audited in the prior 2 years, where applicable
  - Part 2, Matrix of Compliance Requirements will identify realigned programs separate from new and deleted programs

2026 Compliance Supplement Expectations

- Appendix V is the starting point
  - Identifies a high-level description of changes made
  - Includes a list of programs that have changed
- To understand the changes made, a best practice is to run comparisons between the 2025 and 2026 Compliance Supplement

2026 Compliance Supplement Expectations

- Part 2 – Matrix
  - Programs with changes to the requirements subject to audit (Y or N)
    - Shown in bold and highlighted yellow
  - New Programs
    - Identified with "(new)" after the ALN
  - Deleted Programs
    - Identified with "(delete)" after the ALN
    - Still subject to audit
    - Auditors use Part 7 to audit these programs
  - Programs moved from one agency to another
    - Identified with "realign" after the ALN

Reminder:
When a program is in Part 4 - Maximum of 6 compliance requirements continues
(A & B are 1)

2 possible exceptions:
CCDF Cluster and R&D Cluster have 7 requirements

2026 Compliance Supplement Expectations

- Part 2 and 4 – new and deleted programs

New Programs

- **15.018** – Energy Community Revitalization Program (ECRP)
- **20.337** – Consolidated Rail Infrastructure and Safety Improvements Program
- **93.00R** – 988 and Behavioral Health Crisis Services Programs
- **93.798** – Rural Health Transformation Program

Deleted programs are still subject to audit
Auditors will utilize Part 7 of the Compliance Supplement to audit these programs

Deleted Programs

10.181 – Pandemic Relief Activities: Farm and Food
Worker Relief Grant Program

- **16.034** – Coronavirus Emergency Supplemental Funding Program
- **20.319** – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
- **21.023** – Emergency Rental Assistance Program
- **21.026** – Homeowner Assistance Fund
- **21.032** – Local Assistance and Tribal Consistency Fund
- **59.075** – Shuttered Venue Operators Grant Program
- **84.425** – Education Stabilization Fund
- **93.498** – Child Care Disaster Relief

2026 Compliance Supplement Expectations

- Part 3 – Compliance Requirements
  - Revert to single part
  - “Matching” now “cost sharing”
- Part 5 Cluster of Programs
  - No changes to SFA
  - No changes to R&D
  - Other Clusters will be updated for realignments
- Part 6 – Internal Control
  - Removal of section
- Part 7 – Guidance for Auditing Programs not in the Supplement
  - No changes
- Part 8 – Appendixes
  - Remove Appendix I & II
  - Added guidance about realignments
  - FFATA Reporting

2026 Compliance Supplement Expectations

- Part 4 – Expected Changes to the Top 5 Most Frequently Audited Programs

ALN	Program Name	# of times audited *	Changes in 2026
10.555/ 10.553/ 10.559/10.556/ 10.582	Child Nutrition Cluster	3,134	No major changes
84.027 / 84.173	Special Education Cluster (IDEA)	2,111	No major changes
84.010	Title 1 Grants to Local Educational Agencies	1,968	No major changes
21.027	Coronavirus State and Local Fiscal Recovery Funds	1,441	No major changes
14.157	Supportive Housing for the Elderly	1,164	No major changes

* Based on 2025 audit data, excluding R&D

2026 Compliance Supplement Expectations

- Appendix IV, Higher Risk Designation
  - Removed 15.252 – Abandoned Mine Land Reclamation (AMLR)
  - Added two new programs

ALN	Title
93.778 / 93.777 / 93.775	Medicaid Cluster
93.489 / 93.575 / 93.596	Child Care Development Fund Cluster
93.558	Temporary Assistance for Needy Families (TANF)

Impact of "Higher" Risk Status on Major Program Determination

- Type A Program Considerations
  - A "higher risk" designation will often result in a Type A program or other cluster being audited as a major program. However, an auditor is not precluded from determining that a "higher risk" Type A program qualifies as a low-risk Type A program if the program otherwise meets the criteria for a low-risk Type A program.
  - Note: Auditor should prepare audit documentation supporting risk considerations and conclusions for "higher risk" programs.

Impact of “Higher” Risk Status on Major Program Determination

- Type B Program Considerations
  - there are no changes to the normal risk assessment process for Type B programs identified as “higher risk.” That is, the “higher risk” identification must be considered with the other factors in Uniform Guidance §200.519
  - Further, the auditor is not required to prioritize the assessment of risk for “higher risk” Type B programs over other Type B programs

FAC Updates

- No Changes to the DCF in 2026
  – Taskforce for updating the DCF for 2027
- Adding resubmission option – in process
  – Adding ability to change the DCF, audit report, or both, for a submitted file
  – Select if made changes to DCF, audit report or both
  – Marked as a resubmission
  – Only Federal agencies will be able to see original audit report
  – A full resubmission will generate new acceptance date and may impact “low-risk auditee” status
- Future updates
  – See ‘Updates from the FAC’ section of the GSA FAC site

Top 5 Audit Findings

CSLFRF (21.027)	CSLFRF (21.027)	CDBG Cluster – Entitlement/Special Purpose Grants (14.218 /14.225)	Aging Cluster (93.044 /93.045/ 93.053)	CSLFRF (21.027)
Reporting	**Procurement and Suspension and Debarment**	**Reporting**	**Reporting**	**Subrecipient Monitoring**
Inaccurate data submitted	Lack of documentation of price/quote analysis	Incomplete or inaccurate IDIS / CAPER	Programmatic report issues	No formal subrecipient monitoring procedures
Report did not reconcile to system	Inadequate records related to bidding	Lack of supporting documentation	Inaccurate financial data reported	Lack of risk assessments
ICs over report preparation	Did not verify suspension and debarment	Report did not reconcile to system	Lack of report review prior to submission	Failure to review audit reports & follow-up

Tips to avoid common or repeat findings

Move from “root-cause” to “what management should build into reviews, supervision and templates”

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Proposed Uniform Guidance Changes

What the 2026 proposal could mean for how you manage federal awards

1 — 2 — 3

May 29, 2026
Proposed rule published

July 13, 2026
Public comment deadline

Oct. 1, 2026
Proposed effective date

Uniform Guidance Background

Congress Appropriates

- Establishes legislative intent

Agencies Organize

- Design reporting requirements
- Define how to report

OMB Oversees

- Uniform Guidance
- Guidelines for audits

- Conceptual change - Guidance transforms into Regulation
- OMB focus - oversight

Uniform Guidance: The shared rulebook for federal awards

- Codified primarily at 2 CFR Part 200; governs the full federal award lifecycle
- Sets the rules for how federal funds are spent, documented, monitored, and audited
- Drives allowability, internal controls, subrecipient oversight, and Single Audit expectations

The award lifecycle it governs:

Pre-award
Eligibility & risk review

→

Post-award admin
Managing the award

→

Cost principles
What's allowable

→

Single Audit
Testing & compliance

A Structural Rewrite — NOT a Routine Update

- A government-wide rewrite of the framework for federal financial assistance
- Widely described as the **most significant overhaul** since Uniform Guidance was first implemented

Preparation can't sit with one office or department as in many cases the effects are cross-functional:

- Finance
- Procurement
- Payroll
- Subrecipient monitoring
- Legal
- Audit preparation
- HR

Contrast with earlier, narrower updates (e.g., the 2024 changes and the Single Audit threshold increase) — this one reaches across the whole organization.

What OMB is trying to change

Stated goals	In practice, concern is that these changes will actually mean:
• Transparency • Accountability • Oversight • Regulatory clarity • Reduced burden	• More federal discretion • More verification • More formal compliance steps • More conditions and support • Less room for informal assumptions

The real issue is the cumulative effect: more conditions, more support, and less room for informal assumptions is the likely impact of the above

A Compressed Timeline — prep before finalization

- Proposed effective date is October 1, 2026 — a very short implementation runway
- Recipients, agencies, and auditors would all have limited time to adjust
- Identify now where you are most exposed if implementation moves quickly

1	2	3
May 29, 2026	**July 13, 2026**	**Oct. 1, 2026**
Proposed rule published	Public comment deadline	Proposed effective date

One or two programs → targeted readiness on the highest-risk awards.
States/Counties & larger entities with wide ranging awards → portfolio of federal awards, cross-department readiness.

The Biggest Shift: Guidance to Regulation

- Subtitle A would carry regulatory effect in its own right
- Future OMB changes could take effect government-wide on OMB's effective date
- Less lag time for recipients to prepare for future government-wide changes

Guidance
More lag as agencies interpret and stagger rollout

→

Regulation
Binding effect; changes can land on OMB's desired timeline

Does more uniform may also mean more immediate?

Pre-award: more discretionary, and less predictable

- Expanded pre-issuance review and broader applicant-risk factors
- Greater emphasis on agency priorities and risk review

What becomes more valuable for your entity:

Cleaner compliance history
Stronger records and remediated prior findings

Stronger proposal governance
Disciplined, documented proposal review

Lower indirect costs
Preference for lower indirect costs all other things being equal

Recipients can't control federal policy, but you can control how you present the entity as a potential award recipient.

Agencies may gain more room to change award terms

- Specific conditions could be added or changed <u>during</u> the award period
- Possible shifts to reimbursement, extra monitoring, prior approvals, or added technical assistance
- Award terms may deserve closer monitoring after award — not just at acceptance

Can no longer assume compliance picture is frozen after the award notice

Most relevant for pass-through entities and long-duration projects

Payment Verification and E-Verify Process

- Counties/States and other larger entities may need additional documentation prior to payment
- Subrecipients may receive more document requests and questions – slow cash flow
- E-verify enrollment

Incur cost
Payroll, vendors, subs

→

Written support
Justify the request – milestones?

→

Payee verification
Added checks

→

Reimbursement
Cash arrives

Potential issue: funding payroll, vendors, or subrecipients before reimbursement arrives.

"Not only is the cost allowable/supported — but how quickly will we receive reimbursement?"

Fixed amount awards could disappear

- Proposal would eliminate fixed amount awards and subawards unless authorized by statute
- Could shift some awards from outcome-based administration toward incurred-cost support
- Administrative burden could rise for smaller or simpler programs

Today: outcome-based
Measured by deliverables

→

Possible: incurred-cost
More transaction-level support & staff time

Prep point: Identify funding that relies on fixed amount structures and decide where a process redesign is needed.

Some grant costs could be harder to charge

- Tightened treatment of lobbying, memberships and subscriptions, publication costs, and related costs
- Added or clarified restrictions affecting general costs of government and similar categories

Cost categories to watch:

Lobbying

Memberships & subscriptions

Publication costs

Conferences & professional activity

Commencement/Convocation

Practical need: Good pre-charge review and clearer evidence of agency approval when needed.
"When in doubt, assume the file will need a clearer why."

Subrecipient oversight matters more for pass-throughs

- Stronger focus on subrecipient determinations, monitoring, reporting, and reputational-risk concepts
- More attention to downstream entity classification and broader monitoring expectations
- Pass-through entities may feel this more sharply than direct-only recipients

Audit rules remain consistent

- Single Audit fundamentals are not rewritten as dramatically as administrative and post-award sections
- Uncertainty remains around Compliance Supplement timing and internal control framework references
- More audit friction is still likely because upstream files and processes will matter more

> Where the real audit challenge shows up: uncertainty around rules and lack of detailed guidance, change required for supporting documentation, and subrecipient files.

While this UG rewrite does not seem to change the Single Audit, the changes pushed out by the AICPA actually will create the most significant change to Single Audits in more than 10 years

Counties and States: Internal coordination and subrecipient governance

Counties and States administer <u>many</u> awards across many departments.

Biggest risks

- Inconsistent monitoring across departments
- Award term-change tracking
- Who is in charge of keeping up with all the changes globally?

Best actions

- Map all awards and subawards
- Ensure a consistent method to communicate award changes to subrecipients
- Update pass-through oversight templates
- Transition team to address entity-wide concerns

Excerpt from NACo letter template to OMB

Concerns Regarding Expanded Federal Termination Authority - § 200.339; § 200.340; § 200.341

The proposed rule would grant federal agencies broad new discretionary authority to terminate grant awards, including authority subject to senior political appointee approval. While we understand the administration's interest in ensuring awards align with current policy priorities, this provision creates severe fiscal uncertainty for county governments.

County budgets are adopted months before the fiscal year begins. Revenue projections and service commitments – including staffing, contracts and capital investments – are made based on anticipated federal funding. The prospect of award termination at any point based on shifting federal policy priorities creates an untenable level of fiscal risk.

Community colleges: draw support, partner oversight, coordination

Colleges span student support, workforce grants, subawards, contractors, and affiliated entities.

Biggest risks

- Payment justification requirements
- Fixed-amount award elimination
- Stronger partner classification

Best actions

- Align grant, finance, procurement & compliance offices
- Prebuild drawdown support templates

Excerpt from NACUBO letter to OMB

Business officers play a central role in implementing the Uniform Guidance. The proposed revisions would require institutions to evaluate and revise financial policies, internal controls, grants management practices, procurement procedures, payroll processes, financial aid administration, audit preparation, and enterprise systems. Implementation would also require coordination among finance, sponsored programs, financial aid, human resources, procurement, compliance, internal audit, information technology, legal, and other institutional offices. As OMB considers the final rule, we encourage you to evaluate the policy objectives of individual provisions and their cumulative operational impact on recipients responsible for administering federal funds.

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Nonprofits: grant awards, cash timing, subaward clarity

Nonprofits may feel it most through grant uncertainty, cost allowability, and heavier documentation.

Biggest risks

- Lean finance / grants staffing to address changes
- Reimbursement delays hit harder
- Approval-sensitive costs add work

Best actions

- Centralize grant files
- Review current payment justification model
- Review subrecipient, contractor & vendor classifications

Excerpt from National Council of Nonprofits letter to OMB

Pre-Issuance Review. The proposed process for pre-issuance review of discretionary federal awards would allow an administration to reject federal funding proposals using criteria not authorized under federal law. This allows political appointees to exclude certain grantees from consideration in a manner that is not transparent. The proposal does not specify whether grantees would be notified if their proposal was rejected, or the reasons for the rejection. Federal agencies are not required to allow grantees to challenge or appeal such a determination.

Prepare as much as possible prior to the final rule

Don't assume the proposal is finalized as written — but assume it signals where federal expectations are headed.

1. Start a grant inventory
Know every award and subaward

2. Find pressure points
Cash-flow and subrecipient exposure

3. Review policy needs
Update procedures and templates

4. Coordinate early
With auditors and grant leadership

Understand the risks, plan for change now, and monitor the final rule closely.

Resources – "Proposed Changes to Uniform Guidance"

- National Council of Nonprofits
- National Association of Counties (NACo)
- National Association of College and University Business Officials
- GFOA (Government Finance Officers Association)

Resources

- AICPA Single Audit Update
- AICPA Fraud-Resilient Nonprofits: Building, Strengthening & Auditing Internal Controls

Questions? Contact Us!

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