

THE SEFA

An Important Financial Statement

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SEFA Responsibilities

Auditee

- 2 CFR 200.508(b) requires the auditee to prepare the SEFA in accordance with 2 CFR 200.510(b) of the Uniform Guidance.

Auditor

- 2 CFR 200.514(b) and .515(a) require the auditor to determine and provide an opinion (or disclaimer of opinion) on whether the SEFA is presented fairly in all material respects in relation to the auditee's financial statements as a whole.
 - In-relation-to opinion vs “audit” opinion (exceptions - AU-C 805)
 - Do you prepare? Consideration of non-audit services

Auditee Responsibility?

- SEFA is the responsibility of the Auditee
 - That is a shock to clients sometimes 😊
- Strong Internal controls should be in place
 - Mechanisms to identify & track federal grant revenue & expenditure
 - Accumulate info for sefa reporting
 - Reconcile information recorded to GL/other accounting records to federal expenditures reported on sefa
 - Review of sefa - knowledgeable individual within org. – consider uses of checklist
 - <https://us.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/auditee-practice-aids-sefa-uniform-guidance.pdf>

Defining the entity to be audited

- Single audit must cover the entire operations of the auditee
- The auditee has the option to meet the single audit requirement through a series of audits
 - If this option is taken, the audit must include a series of audits that cover departments, agencies, and other organizational units (referred to below as units) that expended or otherwise administered federal awards during the audit period
 - Only permitted if each audit encompasses the financial statements and the SEFA for each unit which must be considered a non-federal entity
- The financial statements and SEFA must be for the same audit period.

Issue of independence when auditor prepares financial statements and accounting records (SEFA)

- Preparation by auditors:
 - **Is a significant threat to independence when:**
 - The auditor prepares financial statements **in their entirety** (par. 3.88);
 - The auditor determines that a service related to preparing financial statements or accounting records is a significant threat (par. 3.93).
 - **The auditor can still be independent though if:**
 - They document the threats;
 - Document the safeguards applied (which may include review by another auditor), as long as they are effective safeguards (reducing threats to an acceptable level) (par. 3.33); **OR**
 - Decline to perform the service (par. 3.88).
- Auditee involvement / review cannot be sole safeguard
 - Typing, formatting, printing, binding, usually not significant (par. 3.95).

Key point – ‘SKE’

- ***Prior to accepting* an engagement to perform a non-audit service in a client in which they provide attest services, auditors required to determine that the audited entity has designated an individual who possesses suitable skills, knowledge and experience and that *understands* the services to be provided sufficiently to oversee them. If there is no such individual, auditors are prohibited from accepting the non-audit service engagement**
 - Management is not required to possess the expertise to perform / reperform services
- But – auditors may ask if
 - You can determine if the results are reasonable
 - You can recognize a material error, omission, misstatement
- If SKE is not present, independence impaired and no safeguards can overcome a lack of SKE, so an auditor simply cannot perform the requested non-audit service

Schedule of Expenditures of Federal Awards

- **Auditee must also prepare** a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements
 - Must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended.
- Sefa reconciles to supporting accounting and other records used in preparation of the financial statements or directly to the financial statements themselves.
- Important to have accurate and complete as is basis for major program determination/risk assessments.
 - Completeness and Accuracy critical to ensure appropriate selection of major programs
- **Auditor documentation and consideration** of internal controls over preparation of the SEFA.

Schedule of Expenditures of Federal Awards

- SEFA must accompany the financial statements or be readily available
 - F.S. are deemed readily available if a 3rd party can obtain without any further action by the audited entity (e.g. on the entity's website)
 - Available upon request is not deemed readily available

Basis of accounting - SEFA

- The single audit requirements do not specifically prescribe the basis of accounting to be used in preparing the SEFA.
- However, the Uniform Guidance for Federal Awards does state that the determination of when an award is expended must be based on when the activity related to the award occurs and provides the guidance – we will cover in a few slides.
- In addition to providing guidance regarding the determination of when a federal award is expended, the Uniform Guidance for Federal Awards also specifies the values that should be presented for certain types of noncash awards as we will see.

Basis of accounting - SEFA

- Covid-19 Considerations
 - Determination of the reporting of expenditures (or lost revenue, as applicable to certain COVID-19 programs) on the schedule of expenditures of federal awards is independent of the determination of revenue recognition under GAAP.
 - Funding provided period of performance/allowance of cost incurred before and after award existed and spanning more than one fiscal year.
 - Some funding had FAQs guidance on report:
 - PRF – Provider Relief Fund
 - ARP - American Rescue Plan
 - ESF – Education Stabilization
 - SLFRF – State & Local Fiscal Recovery Funds

Determining when a federal award is expended

| Federal award type: | Basis for determining when a federal award is expended: |
|--|---|
| Amounts passed through to subrecipients | When the disbursement is made to the subrecipient. |
| Donated property, including donated surplus property | When the property is received. |
| Endowments | When federally restricted amounts are held. |
| Food commodities | When the food commodities are distributed or consumed. |
| Grants, cost reimbursement contracts, compacts with Indian tribes, cooperative agreements under the Federal Acquisition Regulations (FAR), and direct appropriations | When the expenditure or expense transactions occur. |
| Insurance | When the insurance is in force. |
| Interest subsidies | When amounts are disbursed entitling the entity to the subsidy. |
| Loan and loan guarantees | When the loan proceeds are used by the nonfederal entity. |
| Program income | When received or used. |

Determining the value of noncash awards expended noncash awards expended

- Loans & loan guarantees, insurance, endowment funds, free rent, food commodities, donated property , surplus property
- Reported on face of SEFA
- Noncash awards impact major program determination
- Determining expended amounts – Next Slide

Determining the value of noncash awards expended

| Types of noncash awards | Basis used to determine the value of noncash awards expended |
|--|--|
| Endowments | Amount expended equals the cumulative balance of federal awards for endowment funds that are federally restricted in each audit period in which the funds are still restricted. |
| Food commodities and donated property (including donated surplus property) | Amount expended equals the fair value at the time of receipt or the assessed value provided by the federal agency. |
| Free rent | Amount expended equals the fair value at the time of receipt or the assessed value provided by the federal agency. Free rent is not considered an award expended unless it is received as part of an award to carry out a federal program. |
| Insurance | Amount expended equals the fair value of the insurance contract at the time of receipt or the assessed value provided by the federal agency. |

Determining the value of noncash awards expended

| Types of noncash awards | Basis used to determine the value of noncash awards expended |
|---|--|
| Loans and loan guarantees (loans), including interest subsidies | <p>Amount expended equals the value of new loans made or received during the audit period plus the beginning of the audit period balance of loans from previous years for which the federal government imposes continuing compliance requirements, plus any interest subsidy, cash, or administrative cost allowance received. The proceeds of loans that were received and expended in prior years are not considered federal awards expended when the federal statutes, regulations, and the terms and conditions of federal awards pertaining to such loans impose no continuing compliance requirements other than to repay the loans.</p> |
| Loans at institutions of higher education | <p>Amount expended is the same as for <i>loans and loan guarantees (loans), including interest subsidies</i>, except that when loans are made to students of an institution of higher education but the institution of higher education does not make the loans, then only the value of loans made during the audit period must be considered federal awards expended in that audit period. The balance of loans for previous audit periods is not included as federal awards expended because the lender accounts for the prior balances.</p> |

Impact on Type A/B Threshold- Loan Consideration - §200.518 (a)(3) – Auditor Impact

- Loans

- “...inclusion of large loan and loan guarantees (loans) should not result in the exclusion of other programs as Type A programs...”
- “...Federal program providing loans exceeds four times the largest non-loan program it is considered large, and the auditor shall consider this Federal program as a Type A program and exclude its values in determining other Type A programs...”
- a federal program is only considered a loan program if value of federal awards expended from loans within the program is 50% or more of the total federal awards expended for the program
- If a program is considered a large loan program, it is considered a type A program and excluded in determining other type A programs
- A cluster of programs is treated as one program.

Schedule of Expenditures of Federal Awards Required Elements

List individual federal programs by federal agency

For clusters, provide the cluster name, list individual federal programs within the cluster of programs, and provide the applicable federal agency name

For R&D, total federal awards expended must be shown either by Federal award or by Federal agency and major subdivision within the federal agency

For federal awards received as a subrecipient, the name of the PTE and identifying number assigned by the PTE

Total federal awards expended for each individual federal program and the AL number or other identifying number when AL not available

For a cluster of programs also provide the total for the cluster

Include the total amount provided to subrecipients from each federal program

SEFA Required Disclosures

For loan or loan guarantee programs, identify in the notes to the SEFA the balances outstanding at the end of the audit period

Notes that describe the significant accounting policies used in the preparing the SEFA

Note whether the auditee elected to use the 10% de minimis cost rate

City J
Schedule of Expenditures of Federal Awards
Year ended September 30, 2011

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass- Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|--|---------------------------|---|------------------------------------|----------------------------------|
| U.S. Department of Transportation | | | | |
| Passed through State Department of Transportation | | | | |
| Metropolitan Transportation Planning | 20.505 | 550-DOT5 | | \$ 65,758 |
| State & Community Highway Safety | 20.600 | 750-DOT7 | | 56,888 |
| Total U.S. Department of Transportation | | | | <u>122,646</u> |
| U.S. Department of Homeland Security | | | | |
| Passed through State Department of Public Safety | | | | |
| Intercity Bus Security Grants | 97.057 | SHSP-541 | | 75,021 |
| Homeland Security Grant Program | 97.067 | 976-CD-1 | | 25,010 |
| Total U.S. Department of Homeland Security | | | | <u>100,031</u> |
| U.S. Department of Housing and Urban Development | | | | |
| Direct Programs | | | | |
| Community Development Block Grant | 14.218 | | | 314,145 |
| Total U.S. Department of Housing and Urban Development | | | | <u>314,145</u> |
| U.S. Department of Justice | | | | |
| Direct Programs | | | | |
| Community-Based Violence Prevention Program | 16.123 | | \$ 17,050 | 30,013 |
| Total U.S. Department of Justice | | | <u>17,050</u> | <u>30,013</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 17,050</u> | <u>\$ 566,835</u> |

See Notes to Schedule of Expenditures of Federal Awards

State Awards & The SEFA

Some state governments have auditing and reporting requirements for state awards that are similar to those for federal awards under the single audit requirements. In these states, auditors may be engaged to test and report on compliance with the state compliance requirements provided in the state awards and under applicable state laws or regulation.

If state (or other nonfederal) awards are included on the SEFA, they should be segregated and clearly designated as nonfederal. The title of the schedule would also be modified to reflect that nonfederal awards are included (e.g., one common title used is the “Schedule of Expenditures of Federal and State Awards”).

CASE STUDY

Entity B is preparing its SEFA for the year ending December 31, [REDACTED]. During the year, Entity B received an award from the Department of Justice (DOJ) and also had \$25,000 in expenditures from the award. The award document from the DOJ entitled the program “Curtailing Crime Now”. The award document from the DOJ did not indicate the CFDA number for the program or contain a contract or grant number and subsequent attempts by Entity B to obtain that information from the DOJ or cfda.gov have proven fruitless. **What should Entity B present as a CFDA number for the Curtailing Crime Now program on the SEFA?**

CASE STUDY

In some situations, the auditee may be unable to obtain a CFDA number (e.g., this happens sometimes with new federal programs and research and development programs). When this occurs, in the CFDA column of the SEFA, the auditee will typically use the federal awarding agency's 2-digit prefix listed in the data collection form instructions (or 99 if the agency is not listed in the instructions) and if another identifying number is present (e.g., a contract or grant number) the auditee will include the identifying number. If the program does not have a contract or grant number, the number shown as the CFDA number could be the awarding agency's 2-digit prefix (or 99) followed by "UNKNOWN".

In the case of Entity B, since the two digit prefix for the DOJ is 16 and the award did not have a contract or grant number, Entity B could present the CFDA number as "16.UNKNOWN".

Case Study

Commingled assistance

In the current year, County S had \$35,000 in expenditures from an award it received from State X related to emergency disaster relief. In funding the award, State X used funding that it received from the federal level and added additional state level funding. County S is aware that some of the funding originated at the federal level. County S has contacted State X on multiple occasions to try to obtain a breakout of the award it received between federal and state funding. The representatives from State X have replied that the individual sources (i.e., federal and state) of the award cannot be separately identified because of the commingled assistance from different levels of government. **In preparing its SEFA, County S believes that the award needs to be included on its SEFA. What amount should County S include as being an expenditure of federal awards on the SEFA?**

Case Study

County S is correct in its thought process that pass-through awards are included in the scope of the single audit on the same basis as that of federal awards received directly. Complicating matters in this case is the presence of commingled assistance and the inability of the pass-through entity to be able to separately identify the individual funding sources. In this situation, since the commingled assistance cannot be separated to specifically identify the individual funding sources, the total amount should be included on the SEFA, with a note to the SEFA describing the commingled nature of the funds. Thus, County S would list the \$35,000 expenditure on the SEFA and also include a note describing the commingled nature of the funds.

Case Study – Another One!

I don't have time for this!

In the current year, the finance director for City X is swamped with day to day activities. She complains that sometimes it takes her a while to put the SEFA together as she first has to analyze the general ledger and make sure that everything was recorded in the proper accounts and then ensure that all the proper amounts and information is included on the SEFA. She asks Auditor Z to analyze the general ledger and prepare the SEFA for her. **Are there any issues with this request?**

SEFA – Clusters

Clusters are groupings of AL numbers that are treated as if they are a single program for purposes of the single audit

- Research and Development (R&D)
- Student Financial Assistance (SFA)
- Other clusters (approx. 31) – 2024 Supplement

Clusters identified in compliance supplement Part 5.

SEFA – Clusters

Part 5 of the *Compliance Supplement* identifies each cluster (R&D, SFA, and “other clusters” and the specific/unique requirements for each)

R&D is the only cluster where specific Assistance listing numbers are not identified

For R&D, auditors look to the definition of R&D and apply judgment to determine inclusion in the cluster

SEFA - Clusters

- Treatment of NSF and NIH awards
 - NSF – Proposals due on or after 1/14/14 – R&D Cluster
 - NIH – Agreements or budgets beginning on or after 12/26/14 – R&D Cluster
- For all other awards determination of R&D is dependent upon program and award.
 - Should be identified in agreement; however, still review document and request clarification from pass-through or federal awarding agency

Programs without AL numbers

- Sometimes auditees expend federal awards that do not have an assigned AL number.
- The AICPA Audit Guide related to Yellow Book and single audits (GAS) states that when no AL number is assigned, all federal awards to nonfederal entities from the same agency made for the same purpose must be combined and considered one program. Thus, it is critical that an auditee with such programs properly list the programs on its SEFA as it could affect major program determination.

Recipient of a Pass-through Award?

- Subrecipient – an entity that expends federal awards that are received from a PTE to carry out a federal program
- Included in the scope of the single audit on the same basis as federal awards that are received directly.
- Requirements of reporting on the SEFA:
 - Identify that the award is a pass-through award
 - Name of PTE
 - Identifying number assigned by PTE
- Difficulty in identifying – Award Document/Contract – “Subrecipient Monitoring” issues

Subrecipient / Contractor Determination

| Subrecipient | Contractor |
|--|--|
| <p>Creates a federal assistance relationship</p> | <p>Purpose is to obtain goods and services for the nonfederal entity's own use and creates a procurement relationship</p> |
| <p>Determines who is eligible to receive what federal financial assistance</p> | <p>Provides the goods and services within normal business operations</p> |
| <p>Has its performance measured in relation to whether objectives of a federal program were met</p> | <p>Provides similar goods or services to many different purchasers</p> |
| <p>Has responsibility for programmatic decision making</p> | <p>Normally operates in a competitive environment</p> |
| <p>Is responsible for adherence to applicable federal program requirements specified in the federal award; and</p> | <p>Provides goods or services that are ancillary to the operation of the federal program</p> |
| <p>In accordance with its agreement, uses the federal funds to carry out a program for a public purpose specified in authorizing statutes, as opposed to providing goods or services for the benefit of the PTE</p> | <p>Is not subject to compliance requirements of the federal program as a result of the agreement, though similar requirements may apply for other reasons</p> |

COVID-19 & SEFA

- When is there an award (or terms & conditions)?
 - Amounts of funds and speed to award/expend
 - Challenges when received in advance
 - May not be a “signed” document
- When you are unsure ask first 😊
 - Discuss with PTEs, when applicable
 - Review of existing records, email correspondence/contracts/notifications from granting agency/PTE

SEFA Reporting – PRF/COVID-19

| | Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received) | Period of Availability | PRF and ARP Rural Portal Reporting Time Period |
|----------|--|--------------------------------------|---|
| Period 1 | April 10, 2020 to June 30, 2020 | January 1, 2020 to June 30, 2021 | July 1, 2021 to September 30, 2021 |
| Period 2 | July 1, 2020 to December 31, 2020 | January 1, 2020 to December 31, 2021 | January 1, 2022 to March 31, 2022 |
| Period 3 | January 1, 2021 to June 30, 2021 | January 1, 2020 to June 30, 2022 | July 1, 2022 to September 30, 2022 |
| Period 4 | July 1, 2021 to December 31, 2021 | January 1, 2020 to December 31, 2022 | January 1, 2023 to March 31, 2023 |
| Period 5 | January 1, 2022 to June 30, 2022 | January 1, 2020 to June 30, 2023 | July 1, 2023 to September 30, 2023 |
| Period 6 | July 1, 2022 to December 31, 2022 | January 1, 2020 to December 31, 2023 | January 1, 2024 to March 31, 2024 |

SEFA ID of Covid-19

- Compliance Supplement
 - Entities should separately identify COVID-19 expenditures on the SEFA & SF-SAC (data collection form)
 - Including programs 100% funded by COVID-19 programs
 - SEFA – prefix “COVID-19”
 - DCF – separate rob by assistance listing number with “COVID-19” in additional award identification field.
- 2023-2024 – IIJA
 - Not considered Covid-19

SEFA Example

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Provided Through to Subrecipients | Total Federal Expenditures |
|---|---------------------|--|-----------------------------------|----------------------------|
| Department of Treasury Programs | | | | |
| COVID-19 – Coronavirus State and Local Recovery Funds | 21.027 | N/A | 150,000 | 300,000 |
| Department of Health and Human Services Programs | | | | |
| Temporary Assistance for Needy Families | 93.558 | N/A | - | 3,000,000 |
| COVID-19 - Temporary Assistance for Needy Families | 93.558 | N/A | - | 1,000,000 |
| Total - Temporary Assistance for Needy Families | | | - | 4,000,000 |

SEFA Reporting Problems

- Common Issues
 - Subgrant awards numbers assigned by pass-through entities not included
 - Names of pass-through entities missing
 - Grantor Federal agency names missing
 - Grantor Federal agency subdivision names missing
 - Multiple lines for AL number shown – total expenditures for AL number not shown
 - Programs that are part of a cluster not shown as such
 - Notes to SEFA missing or incomplete
 - Non-cash awards missing
 - Improper reporting of loans
 - Incorrect or missing AL number
 - R&D programs not identified as such
 - Proper identification - Subrecipient vs Contractor
- Auditor Issues:
 - Auditor utilization of a preliminary SEFA and not truing up testing when final information is received
 - Errors affecting Major Program Determination
 - Incorrect major program selection

Best Practices & Recommendations

- Don't wait until the auditor arrives!!!
 - Ensure Grant file documentation is in order (centralized vs decentralized)
 - Any awards where you are unsure (Federal/State/Other) contact pass-through entities
 - GAPYWP – Prior year may not be best or correct
 - Think changing clusters and requirements
- Reconcile to supporting records
- Ensure auditor is aware of need to perform single audit

Thank You!