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MEMORANDUM

DATE: May 30, 2023
TO: All Indiana Local Governments Reporting on the GAAP Basis
FROM: Tammy White, CPA, Deputy State Examiner
SUBJECT: Reporting of Federal Awards of Component Units for GAAP Audits

When component units of a primary government are included in GAAP financial statements of the reporting entity, the reporting entity must determine if the component unit expended or otherwise administered federal awards during the audit period. Federal awards of component units may need to be included in the reporting entity's Schedule of Expenditures of Federal Awards (SEFA).

Uniform Guidance, specifically 2 CFR § 200.514, of the federal audit requirements requires the audit to cover the entire operations of the auditee or include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered federal awards during the audit period. The financial statements and SEFA must be for the same audit period.

Therefore, there are two ways the audit scope requirements can be met. Both of the following provide for proper consideration of all federal award activity during the audit period.

1. For component units that received federal funding and either have a separate single audit completed covering their financial statements, SEFA, and major program audit, or have a separate audit of their financial statements, but did not reach the threshold requiring a single audit for the audit period; do not include federal funding of the component unit with the primary government's federal activities in the SEFA.

Disclosure of this information will be included in the major program report and on the Data Collection Form by the auditor.

2. For component units that received federal funding, but do not have a separate audit of their financial statements completed, their financial activity is only audited as a part of the primary government's financial statement audit. In this situation, you should include the federal awards of the component units with the primary government's federal award information in the reporting entity's SEFA.

Regardless of whether the component unit is presented discretely or blended, the determination above should be made and documented. When assessing the component unit activity in preparation of the

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financial statements feel free to contact Indiana State Board of Accounts if you have questions about whether the audit period of the component unit will align with the audit period of the reporting entity.