

# State Board of Accounts Glossary of Accounting and Audit Terms



Issued By

State Board of Accounts

State of Indiana

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# Preface

The Indiana State Board of Accounts has the statutory duty to examine all accounts and financial affairs of every public office and officer, state office, state institution, and entity within the State of Indiana. It is our mission to provide its citizens with complete confidence in the integrity and financial accountability of state and local government. In our continuance to provide the highest level of professional service to governmental units and the public, we have created a glossary of accounting and auditing terms that are relevant to the audit work conducted within the State of Indiana and our agency.

The glossary contains definitions of accounting, reporting, and auditing terms that are commonly used in the course of conducting our engagements and often appear in the reports issued by our agency.

We have provided sources for these definitions for further reference. The most authoritative source is provided but additional sources maybe available. There are terms listed within this glossary that are not explicitly defined in authoritative guidance. In these instances, the State Board of Accounts has compiled definitions based on research and our staffs' knowledge and experience.

Our reports are intended to provide objective information about the financial condition and compliance with the laws and regulations governing the units and entities we examine. It is our hope that the glossary is a beneficial resource in reviewing our reports and gives a proper perspective of the findings contained within our reports. An online version of this glossary is also available on our website.

If you have any questions for our office, whether it be about these terms, or otherwise, please don't hesitate to call our office at (317) 232-2513 or send an email to one of the following:

[Cities.Towns@sboa.in.gov](mailto:Cities.Towns@sboa.in.gov)

[Communications@sboa.in.gov](mailto:Communications@sboa.in.gov)

[Counties@sboa.in.gov](mailto:Counties@sboa.in.gov)

[Libraries@sboa.in.gov](mailto:Libraries@sboa.in.gov)

[NotForProfit@sboa.in.gov](mailto:NotForProfit@sboa.in.gov)

[Schools.Townships@sboa.in.gov](mailto:Schools.Townships@sboa.in.gov)

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# A

## **Abuse**

Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate (GAGAS 7.25).

*See also:*

- *Fraud*

## **Access Controls**

Access controls limit or detect inappropriate access to computer resources (data, equipment, and facilities), thereby protecting them from unauthorized modification, loss, and disclosure (GAO FISCAM 3.2). Access can be restricted by requiring users to authenticate themselves through usernames, passwords, or biometric screening. When access controls are limited, the unit minimizes the negative impacts of unauthorized individuals using computer systems or programs; entering a facility; or making changes to files and records.

## **Accountability**

Accountability is the willingness to accept responsibility or account for one's actions (Merriam-Webster). The concept of accountability for use of public resources and government authority is key to the governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program. (GAGAS 1.02)

*See also*

- *Audit Committee*
- *Financial Integrity Act*
- *Generally Accepted Government Auditing Standard (GAGAS)*
- *Risk Assessment*
- *Transparency*
- *Yellow Book*

## **Accrual Basis of Accounting**

The accrual basis of accounting records most transactions as they occur, regardless of when cash is received or disbursed. (NCGAS 1, paragraph 59) Revenues are recorded when the good has been sold

or a service has been performed; expenditures or expenses are recorded when the amount has been incurred. (GASB Cod. Sec. 1600.103)

Government-wide financial statements, proprietary fund, and fiduciary fund statements are all presented on the accrual basis of accounting. (GASB Cod. Sec. 1600.105)

### **Activities Allowed or Unallowed Requirements**

Activities allowed or unallowed requirements refers to uses of Federal funds which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contracts or grant agreements pertaining to a Federal program. These are unique to each Federal program and outline the activities that can be conducted using the funding from the program.

### **Adverse Opinion**

An adverse opinion is expressed after the auditor has collected sufficient, appropriate evidence, and determines that the misstatements in the financial statement are both material and pervasive. (AU-C 705.09)

*See also: Types of Financial Statement Audit Report Opinions*

### **Agreed-Upon Procedures Engagement**

In this type of engagement, the practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The practitioner reports on the agreed-upon procedures and any findings that are related to the procedures performed. (AT-C 105.12.d)

### **Allowable Cost/Cost Principles Requirements**

Allowable Costs refers to a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart. (2 CFR 200.405(a))

Cost principles refers to cost accounting policies associated with the administration of Federal awards which outline allowable and unallowable costs and standard methodologies for calculating indirect cost rates. (OMB Compliance Supplement, April 2017, page 3.1-B-1)

*See also: Compliance Requirements in a Single Audit*

### **American Institute of Certified Public Accountants (AICPA)**

The AICPA was founded in 1887 to represent the CPA profession. The AICPA establishes strict ethical standards for the profession; develops auditing standards for private companies and other services

by CPAs; provides educational guidance materials to its members; develops and grades the Uniform CPA Examination; and monitors and enforces compliance with the profession's technical and ethical standards.

The AICPA also offers specialty credential for CPAs who concentrate on financial planning, business valuation, forensic accounting, information technology, and tax advisory services. The AICPA partners with the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) in developing accounting standards. ([aicpa.cima.com](http://aicpa.cima.com))

*See also:*

- *Auditing Standards Board (ASB)*  
*Certified Public Accountant (CPA)*
- *Financial Accounting Standards Board (FASB)*
- *Governmental Accounting Standards Board (GASB)*

### **Amortization**

The process of reducing a recognized liability systematically by recognizing gains or by reducing a recognized asset systematically by recognizing losses. (FASB Master Glossary)

*See also:*

- *Asset*
- *Depreciation*
- *Intangible Asset*

### **Analytical Procedures**

Analytical procedures are a form of audit evidence. Procedures include analyzing plausible relationships among both financial and nonfinancial data. Additionally, these procedures help identify fluctuations or unusual transactions that are different from the auditor's expectation.

Analytical procedures are performed three times. First, analytical procedures are performed at the beginning of the audit as part of risk assessment procedures. This helps auditors plan the audit and the procedures they will perform. Analytical procedures are used during the audit to corroborate other audit evidence obtained. Final analytical procedures are used at the end of the audit to assist the auditor when forming an overall conclusion on the financial statements. (AU-C 520)

*See also*

- *Assertions*
- *Evidence*
- *Risk Assessment*

### **Annual Comprehensive Financial Report (ACFR)**

The Annual Comprehensive Financial Report (ACFR) is the governmental entity's official annual report and contains introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data. (GASB Cod Sec. 2200.101)

The purpose of the reporting entity's financial statements is to report the financial position and results of operations of the primary government, including its blended component units, and provide an overview of the discretely presented component units. Timely and properly presented financial reports are essential to managers, legislative officials, creditors, financial analysts, the general public, and others having need for governmental financial statements. (GASB 2200.101 and 2200.104)

The statistical section presents financial trends, revenue capacity, debt capacity, operating information, and demographic and economic information. (GASB 2800.105)

See also:

- Annual Financial Report (AFR)
- Certificate of Achievement for Excellence in Financial Reporting Program

### **Annual Financial Report (AFR)**

The Annual Financial Report contains financial information from the reporting period, such as a calendar or fiscal year. Indiana Code 5-11-1-4 states that the State Examiner must require every municipality and every state or local government unit or entity file an Annual Financial Report (AFR). The AFR is due no later than 60 days after the close of each fiscal year. For 2011 and the years following, the State Board of Accounts implemented the electronic filing of the AFR via Indiana Gateway for Government Units.

*See also: Indiana Gateway for Government Units*

### **Appropriateness (of Audit Evidence)**

The appropriateness of audit evidence measures the quality of audit evidence. To be appropriate, evidence must be relevant to the circumstances, and reliable support on which the auditor may base an opinion. (AU-C 500.06)

*See also: Evidence*

### **Assertion**

An assertion is management's implicit or explicit representation to the auditor relating to recognition, measurement, and presentation of the financial statement items and disclosures. The auditor uses these assertions to consider the different types of potential misstatements that could occur. Auditors also test the validity of management's assertions, one method of testing being analytical procedures. (AU-C 315.A127-A133)

*See also: Analytical Procedures*

### **Asset**

An asset is a resource with present service capacity that the government presently controls. The government is able to utilize the asset to provide goods and services. Assets can be either short- or long-term assets. Short-term assets are those assets that are expected to be used within one year. Examples include cash and cash equivalents, receivables, and inventory. Long-term assets are expected to be held for a year or longer and include capital assets. (GASBCS 4, paragraphs 8-16)

## **Assistance Listing Number (ALN) (formerly CFDA)**

The federal government provides assistance to the American public in the form of projects, services, and activities. It supports a broad range of assistance listings— in various areas such as education, health care, research, infrastructure, economic development, and others— through grants, loans, scholarships, insurance, and other types of financial assistance. Each assistance listing is associated with a unique Assistance Listing (AL) number.

[https://www.fsd.gov/gsafsd\\_sp?id=kb\\_article\\_view&sysparm\\_article=KB0017417&sys\\_kb\\_id=d7fde4a11b9aed100ca4a97ae54bcbd6&spa=1](https://www.fsd.gov/gsafsd_sp?id=kb_article_view&sysparm_article=KB0017417&sys_kb_id=d7fde4a11b9aed100ca4a97ae54bcbd6&spa=1)

## **Attestation Engagements**

An examination, review, or agreed-upon procedures engagement performed under the attestation standards related to subject matter or an assertion that is the responsibility of another party. The following are the three types of attestation engagements:

*Examination engagement* - An attestation engagement in which the practitioner obtains reasonable assurance by obtaining sufficient appropriate evidence about the measurement or evaluation of subject matter against criteria in order to be able to draw reasonable conclusions on which to base the practitioner's opinion about whether the subject matter is in accordance with (or based on) the criteria or the assertion is fairly stated, in all material respects.

*Review engagement* - An attestation engagement in which the practitioner obtains limited assurance by obtaining sufficient appropriate review evidence about the measurement or evaluation of subject matter against criteria in order to express a conclusion about whether any material modification should be made to the subject matter in order for it be in accordance with (or based on) the criteria or to the assertion in order for it to be fairly stated.

*Agreed-upon procedures engagement* - An attestation engagement in which a practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The parties to the engagement (*specified party*), as defined later in this paragraph, agree upon and are responsible for the sufficiency of the procedures for their purposes. (AT-C 105.12)

## **Audit Committee**

The audit committee is a subcommittee of the legislative council that was established to assure the independence of the State Board of Accounts. Indiana Code 2-5-1.1-6.3(c) states in part: “The audit committee is responsible for providing independent review and oversight of the State Board of Accounts and the examination process used by the State Board of Accounts.” (Repeat Findings Template)

## **Audit Documentation**

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (AU-C 230.06)

*See also: Working Papers*

## **Audit evidence**

Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. (AU-C 500.06)

### **Auditing Standards Board**

The Auditing Standards Board (ASB) is the American Institute of Certified Public Accountants' (AICPA) senior committee for auditing, attestation, and quality control standards applicable to non-public company audits. It develops, updates and communicates standards to provide guidance to practitioners. ASB guidance allows practitioners to perform high-quality and objective engagements. (<https://www.aicpa.org/research/standards/auditattest/asb.html>)

*See also: American institute of Certified Public Accountants (AICPA)*

### **Audit Report**

An independent auditor's primary responsibility is to report on whether the basic financial statements, including the notes thereto, are presented fairly in accordance with the governmental entity's applicable financial reporting framework. The type of report the independent auditor issues depends primarily on the contents of the basic financial statements and the scope and results of the audit. (AICPA Accounting and Auditing Guide – AAG-SLG March 2022 17.01 16.01)

### **Auditor's Specialist**

An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's specialist may be either an auditor's internal specialist or an auditor's external specialist. (AU-C 620.06)

## **B**

### **Balance Sheet**

The balance sheet reports information about the current financial resources of each major governmental fund and for nonmajor governmental fund in the aggregate (GASB 34, paragraph 83). The format of the balance sheet shows assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources, and fund balances.

*See also:*

- *Asset*
- *Annual Comprehensive Financial Report (ACFR)*
- *Deferred Inflows/Outflows of Resources*
- *Fund Balance*
- *Liability*

### **Basic Financial Statements**



The basic financial statements are required under generally accepted accounting principles (GAAP) and provide operational accountability information for the government as a whole. (GASB 34, paragraph 213) The basic financial statements are divided into two categories government-wide financial statements and fund financial statements. (GASB 34, paragraph 6)

*See also:*

- *Financial Statements*
- *Generally Accepted Accounting Principles (GAAP)*
- *Notes to the financial statements*

### **Basis of Accounting**

The basis of accounting refers to when revenues, expenditures, expenses, and transfers are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made. In government accounting, there are three types of basis of accounting: cash basis, accrual basis, and modified accrual basis. (NCGAS 1, paragraph 58)

*See also:*

- *Accrual Basis of Accounting*
- *Cash Basis of Accounting*
- *Modified Accrual Basis of Accounting*
- *Other Comprehensive Basis of Accounting (OCBOA)*

### **Best Practices**

Best practices are procedures that have been shown by research or experience to produce optimal results and are established or proposed as standards suitable for widespread adoption. (Merriam-Webster) For a governmental unit, best practices could include policies or internal control standards.

*See also:*

- *Criteria*
- *Elements of a Finding*
- *Finding*

### **Business-Type Activities**

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds. (GASB 34, paragraph 15) Examples include utilities, self-insurance, or for schools, child day care.



### **Capital Assets**

Capital assets refer to assets that are used in operations and have useful lives extending beyond a single reporting period, such as one year. Capital assets include land, improvements to land, easements, buildings, building improvements, equipment, works of art and historical treasures, or infrastructure. (GASB 34, paragraph 19)

*See also*

- *Asset*
- *Infrastructure Assets*

### **Cash Basis of Accounting**

The cash basis of accounting records revenues and transfers in when cash is received, and expenditures or expenses and transfers out when cash is disbursed. (NCGAS 1, paragraph 59)

### **Cash Management Requirements**

Cash management requirements provide that recipients of Federal awards must manage the funds received to ensure optimal use of the funds. If the funding is received in advance of payment for the activity, the time between the receipt of the grant funds and the disbursement of it must be minimized. If the funding is received on a reimbursement basis, the payment for the activity must be made prior to requesting the reimbursement. (OMB Compliance Supplement 3-C-1 through 3-C-6 and 2 CFR 200.305)

*See also: Compliance Requirements in a Single Audit*

### **Certificate of Achievement for Excellence in Financial Reporting Program**

The Government Finance Officers Association (GFOA) established the Certificate of Achievement for Excellence in Financial Reporting Program (COA) in 1945 to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare annual comprehensive financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The goal of the program is not to assess the financial health of participating governments, but rather to ensure that users of their financial statements have the information they need to do so themselves. (<https://www.gfoa.org/coa-award>)

Reports submitted to the ACFR program are reviewed by selected members of the GFOA professional staff and the GFOA Special Review Committee (SRC), which comprises individuals with expertise in public sector financial reporting and includes financial statement preparers, independent auditors, academics, and other finance professionals. (<https://www.gfoa.org/coa-award-criteria-checklists>)

*See also: Annual Comprehensive Financial Report (ACFR)*

### **Certified Fraud Examiner (CFE)**

The Certified Fraud Examiner (CFE) credential denotes proven expertise in fraud prevention, detection and deterrence. CFEs are trained to identify the warning signs and red flags that indicate evidence of fraud and fraud risk. CFEs around the world help protect the global economy by uncovering

fraud and implementing processes to prevent fraud from occurring in the first place. CFEs combine knowledge of complex financial transactions with an understanding of methods, law, and how to resolve allegations of fraud.

Before earning the CFE credential, candidates must pass the CFE exam. The CFE tests four major areas that comprise the fraud examination body of knowledge:

- *Fraud prevention and deterrence*
- *Financial transactions and fraud schemes*
- *Investigation*
- *Law*

CFEs must meet minimum academic and professional requirements, as well as abide by the bylaws and Code of Professional Ethics of the Association of Certified Fraud Examiners. CFEs must also complete continuing professional education requirements ([www.acfe.com/cfe-credential.aspx](http://www.acfe.com/cfe-credential.aspx)).

*See also:*

- *Continuing Professional Education (CPE)*
- *Fraud*

### **Certified Government Financial Manager (CGFM)**

Certified Government Financial Manager (CGFM) is a respected credential administered by the Association of Government Accountants (AGA) to recognize the specialized knowledge and experience needed to be an effective government financial manager. The certification demonstrates competency in governmental accounting, auditing, financial reporting, internal controls, and budgeting at the federal, state, and local levels

To earn the CGFM, candidates must apply and meet the following requirements:

- **Ethics:** candidates must read and agree to abide by the AGA's Code of Ethics
- **Education:** candidates must have a bachelor's degree from an accredited U.S. college or university
- **Examinations:** candidates must pass three comprehensive CGFM examinations
- **Experience:** candidates must have at least two years of professional-level experience in government financial management

To maintain the CGFM certification, members must renew their membership annually, complete 80 hours of continuing professional education (CPE) every two years, and continue to abide by the AGA's Code of Ethics ([www.agacgfm.org](http://www.agacgfm.org)).

### **Certified Information Systems Auditor (CISA)**

The Certified Information Systems Auditor (CISA) designation is given by ISACA, an association that engages in the development, adoption, and use of knowledge and practices for information systems. The CISA is a globally recognized certification for information systems audit control, assurance, and security.

- Successful completion of the CISA examination, which covers five major topics
  - Information Systems Auditing Process

- Governance and Management of IT
- Information Systems Acquisition, Development, and Implementation
- Information Systems Operations and Business Reliance
- Protection of Information Assets
- A minimum of 5 years of professional information systems auditing, control or security work experience

The CISA license is renewed annually, and members who possess a CISA designation must meet the following requirements:

- Adherence to the Code of Professional Ethics
- Minimum of 20 hours of continuing professional education annually, with a minimum of 120 hours during a fixed three-year period.
- Compliance with the Information Systems Auditing Standards ([www.isaca.org](http://www.isaca.org))

### **Certified Public Accountant (CPA)**

A Certified Public Accountant (CPA) is an individual who has met high educational standards, passed the Uniform CPA Examination, and completed a specific amount of general accounting experience. A CPA license is a symbol to the public that an accountant has mastered the vital elements of the accounting profession. (<https://nasba.org/education/becomingacpa/>)

To become a CPA in Indiana, candidates must have earned 120 semester hours of education from an accredited college or university (although 150 hours is still required for licensure). Of the 150, at least 24 semester hours must be in accounting at the undergraduate level or 15 semester hours at the graduate level. Candidates must pass the Uniform CPA Examination and complete one year of experience in accounting acceptable to the Indiana Board of Accountancy. (<https://nasba.org/exams/cpaexam/indiana/>)

Licenses are renewed every three years and require a minimum of 120 total hours of continuing professional education, with a minimum of 20 hours per year. These hours should cover general material, accounting and auditing, and ethics. (<https://www.nasbaregistry.org/cpe-requirements>)

### **Cluster of Programs**

Cluster of programs means a grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development (R&D), student financial aid (SFA), and other clusters. "Other clusters" are as defined by OMB in the compliance supplement or as designated by a state for Federal awards the state provides to its subrecipients that meet the definition of a cluster of programs. When designating an "other cluster," a state must identify the Federal awards included in the cluster and advise the subrecipients of compliance requirements applicable to the cluster, consistent with §200.331 Requirements for pass-through entities, paragraph (a). A cluster of programs must be considered as one program for determining major programs, as described in §200.518 Major program determination, and, with the exception of R&D as described in §200.501 Audit requirements, paragraph (c), whether a program-specific audit may be elected. (2 CFR 200.1)

*See also: Single Audit*

### **Cognizant Agency**

Cognizant agency for audit means the Federal agency designated to carry out the responsibilities described in § 200.513 Responsibilities, paragraph (a). The cognizant agency for audit is not necessarily the same as the cognizant agency for indirect costs. A list of cognizant agencies for audit may be found at the FAC Web site. (2 CFR 200.18) 2 CFR 200.513:

(1) Cognizant agency for audit responsibilities. A non-Federal entity expending more than \$50 million a year in Federal awards must have a cognizant agency for audit. The designated cognizant agency for audit must be the Federal awarding agency that provides the predominant amount of direct funding to a non-Federal entity unless OMB designates a specific cognizant agency for audit.

(2) To provide for continuity of cognizance, the determination of the predominant amount of direct funding must be based upon direct Federal awards expended in the non-Federal entity's fiscal years ending in 2009, 2014, 2019 and every fifth year thereafter. For example, audit cognizance for periods ending in 2011 through 2015 will be determined based on Federal awards expended in 2009.

(3) Notwithstanding the manner in which audit cognizance is determined, a Federal awarding agency with cognizance for an auditee may reassign cognizance to another Federal awarding agency that provides substantial funding and agrees to be the cognizant agency for audit. Within 30 calendar days after any reassignment, both the old and the new cognizant agency for audit must provide notice of the change to the FAC, the auditee, and, if known, the auditor. The cognizant agency for audit must:

(i) Provide technical audit advice and liaison assistance to auditees and auditors.

(ii) Obtain or conduct quality control reviews on selected audits made by non-Federal auditors, and provide the results to other interested organizations. Cooperate and provide support to the Federal agency designated by OMB to lead a government-wide project to determine the quality of single audits by providing a statistically reliable estimate of the extent that single audits conform to applicable requirements, standards, and procedures; and to make recommendations to address noted audit quality issues, including recommendations for any changes to applicable requirements, standards and procedures indicated by the results of the project. This government-wide audit quality project must be performed once every 6 years beginning in 2018 or at such other interval as determined by OMB, and the results must be public.

(iii) Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any direct reporting by the auditee or its auditor required by GAGAS or statutes and regulations.

(iv) Advise the community of independent auditors of any noteworthy or important factual trends related to the quality of audits stemming from quality control reviews. Significant problems or quality issues consistently identified through quality control reviews of audit reports must be referred to appropriate state licensing agencies and professional bodies.

(v) Advise the auditor, Federal awarding agencies, and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee must work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit must notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-

up action. Major inadequacies or repetitive substandard performance by auditors must be referred to appropriate state licensing agencies and professional bodies for disciplinary action.

(vi) Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to the audits made pursuant to this part, so that the additional audits or reviews build upon rather than duplicate audits performed in accordance with this part.

(vii) Coordinate a management decision for cross-cutting audit findings (as defined in § 200.30 Cross-cutting audit finding) that affect the Federal programs of more than one agency when requested by any Federal awarding agency whose awards are included in the audit finding of the auditee.

(viii) Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.

(ix) Provide advice to auditees as to how to handle changes in fiscal years.

A cognizant agency for indirect costs means the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit (2 CFR 200.1).

*See also:*

- *Indirect Cost Rate*
- *Indirect Costs*
- *Single Audit*

### **Combining Financial Statements**

The focus of governmental and proprietary fund financial statements is on major funds, while nonmajor funds are presented in one, total column on the financial statements. Combining financial statements are a supporting disclosure that shows the detail of the nonmajor funds. The combining financial statements shows each nonmajor fund in a separate column. (GASB Cod. Sec. 2200, exhibits 15 & 16)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Major Fund*

### **Committee of Sponsoring Organizations of the Treadway Commission (COSO)**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

The five sponsoring organizations are as follows: American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), Institute of Management Accountants (IMA), and The Institute of Internal Auditors (IIA).

<https://www.coso.org/SitePages/About-Us.aspx>

*See also:*

- *American Institute of Certified Public Accountants (AICPA)*
- *Fraud*
- *Internal Control*

### **Comparative Financial Statements**

Comparative financial statements are a complete set of financial statements for one or more prior periods included for comparison with the financial statements of the current period. When comparative financial statements are presented, the auditor's report should refer to each period for which the financial statements are presented and on which an audit opinion is expressed. (AU-C 700.10, AU-C 700.45)

*See also: Generally accepted accounting principles (GAAP)*

### **Compliance Audit**

A program-specific audit or an organization wide audit of an entity's compliance with applicable compliance requirements. (AU-C 935.11)

*See also: Compliance Requirements in a Single Audit*

### **Compliance Requirements in a Single Audit**

The Single Audit Act of 1984, as amended in 1996, was passed to ensure that organizations receiving federal grants use the funds in compliance with the federal government's requirements. (Council of Nonprofits) There are 12 compliance requirements in a Single Audit, listed as follows:

- Activities allowed or unallowed
- Allowable cost/cost principles
- Cash management
- Eligibility
- Equipment and real property management
- Matching, level of effort, and earmarking
- Period of performance
- Procurement and suspension and debarment
- Program income
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

These 12 types of compliance requirements each have related audit objectives that the auditor must consider, as applicable, in every audit conducted under 2 CFR part 200, subpart F. The auditor is responsible for achieving the stated audit objectives for the applicable compliance requirements. (OMB Compliance Supplement, 2023, 1-1) <https://www.whitehouse.gov/omb/office-federal-financial-management/>

*See also:*

- *Activities Allowed or Unallowed*
- *Allowable Costs*
- *Cash Management*
- *Compliance Supplement*
- *Cost Principles*
- *Earmarking*
- *Eligibility*
- *Equipment*
- *Level of Effort*
- *Matching*
- *Period of Performance*
- *Procurement*
- *Real Property Management*
- *Reporting*
- *Single Audit*
- *Subrecipient monitoring*
- *Suspension and Debarment*
- *Special Tests and Provisions*

### **Compliance Supplement**

The Compliance Supplement is issued by the U.S. Office of Management and Budget. The purpose is to assist auditors in performing the required audits. The compliance supplement identifies existing important compliance requirements that the federal government expects to be considered as part of an audit.

Without the Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing the Supplement is a more efficient and cost-effective approach to performing this research. (Compliance Supplement, 2023, 1-1)

*See also: Compliance Requirements in a Single Audit*

### **Components of Internal Control**

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources. The five components of internal control are as follows:

- **Control Environment** - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.



- Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
- Control Activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.
- Information and Communication - The quality information management and personnel communicate and use to support the internal control system.
- Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. (Standards for Internal Control in the Federal Government, 5; 7-8) *See also:*

- *Finding*
- *Internal Control*
- *Standards for Internal Control in the Federal Government*

### **Component Unit**

The purpose of the reporting entity's financial statements is to report the financial position and results of operations of the primary government, including its blended component units, and provide an overview of the discretely presented component units. Timely and properly presented financial reports are essential to managers, legislative officials, creditors, financial analysts, the general public, and others having need for governmental financial statements. (GASB 2200.101 and 2200.104)

The statistical section presents financial trends, revenue capacity, debt capacity, operating information, and demographic and economic information. (GASB 2800.105)

See also:

- Annual Financial Report (AFR)
- Certificate of Achievement for Excellence in Financial Reporting Program

### **Computer-Assisted Audit Techniques (CAATs)**

Computer-Assisted Audit Techniques (CAATs) are tools and techniques that use software programs to assist the auditing process. For example, CAATs assist auditors by analyzing large amounts of data quickly (<https://smallbusiness.chron.com/advantages-disadvantages-assisted-audit-20298.html>).

### **Confidential and Sensitive Information**

Confidential and sensitive information refers to certain information that is prohibited from public disclosure or is excluded from a report because of its confidential or sensitive nature or due to federal, state, or local laws or regulations. (GAGAS 6.63) *See also:*

- *Public Record*

## **Conflict of Interest**

A conflict of interest is a conflict between the private interest and the official responsibilities in a position of trust. (Merriam Webster)

All State Board of Accounts field examiners complete an Annual Statement of Independence to ensure field examiners are not assigned to audit a unit where a conflict of interest could exist.

## **Continuing Professional Education (CPE)**

Continuing Professional Education (CPE) is the means by which professionals maintain their knowledge and skills related to their career through structured educational activities. CPE is required for Certified Public Accountants (CPAs) to maintain their professional competence and provide quality professional services. CPAs are responsible for complying with all applicable CPE requirements, rules and regulations of state boards of accountancy, as well as those of membership associations and other professional organizations. (AICPA)

GAGAS also requires CPE for auditors performing work including planning, directing, performing audit procedures, or reporting on an audit conducted pursuant to GAGAS. (GAGAS 4.16)

## **Contract**

Contract means a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used in this part does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward. (2 CFR 200.1)

*See also: Contractor*

## **Contractor**

Contractor means an entity that receives a contract as defined in. (2 CFR 200.1)

*See also: Contract*

## **Control Activities**

Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. (Standards for Internal Control in the Federal Government OV 2.04)

*See also: Components of Internal Control*

## **Control Environment**

The control environment is the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives. (Standards for Internal Control in the Federal Government OV 2.04)

*See also: Components of Internal Control*

### **Control Risk**

Control risk is the risk that a material misstatement could occur in the financial statements, and the misstatement, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control. (AU-C 200.14)

*See also:*

- *Assertions*
- *Detection Risk*
- *Fraud*
- *Internal Control*
- *Material Noncompliance*
- *Risk*

### **Corrective Action Plan**

In accordance with Uniform Guidance, at the completion of a Single Audit, the auditee must prepare a corrective action plan on its letterhead to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons (2 CFR 200.511, UG FAQ 200.511-1, <https://cfo.gov/wp-content/uploads/2017/08/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf>)

In accordance with Indiana Code 5-11-5-1.5, An audited entity shall take action to address findings regarding a failure to observe a uniform compliance guideline established under IC 5-11-1-24 or a specific law. If the finding is repeated in a subsequent audit, the entity must file a corrective action plan (CAP) with the State Board of Accounts in accordance with IC 5-11-5-1.5. This is done electronically on the State Board of Accounts website (<https://www.in.gov/sboa/5207.htm>). Also found on our website are Guidelines, Instructions, and a Template for reference only as the submission must be electronically.

*See also:*

- *Finding*
- *Single Audit*
- *Uniform Compliance Guidelines*

### **Cost Principles**

These principles must be used in determining the allowable costs of work performed by the non-Federal entity under Federal awards. These principles also must be used by the non-Federal entity as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price. (2 CFR 200.401)

## Criteria

For inclusion in findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operations. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report. In a financial audit, the applicable financial reporting framework, such as generally accepted accounting principles, represents one set of criteria (GAGAS 6.25).

*See also:*

- *Best Practices*
- *Elements of a Finding*
- *Evidence*

## Custodial Funds

Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds (GASB 84, paragraph 18).

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## Data Reliability

Data reliability refers to the accuracy and completeness of information that is entered, processed, or maintained in a data system and is generally organized in, or derived from, structured computer files (GAO Assessing Data Reliability, page 3).

Auditors should assess reliability if the data to be analyzed are intended to materially support findings, conclusions, or recommendations (GAO Assessing Data Reliability, page 12).

*See also: Evidence*

## Deferred Outflows/Inflows of Resources

A deferred *outflow* of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred *inflow* of resources is an acquisition of net assets by the government that is applicable to a future reporting period. (GASBCS 4, paragraphs 32-34) Examples of deferred outflows and inflows include resources that are related to pensions or other postemployment benefits.

Deferred outflows/inflows of resources have a financial effect on the future net position, and they are reported on the statement of net position. (GASBCS 4, paragraphs 32-34) Deferred outflows are reported after total assets. Deferred inflows are reported after total liabilities.

*See also:*

- *Balance Sheet*
- *Government Accounting Standards Board*
- *Pensions*
- *Other Postemployment Benefits*

## **Depreciation**

Depreciation is a planned, gradual reduction in the recorded value of an asset over its useful life by charging it to expense. (<https://www.accountingtools.com/articles/depreciation>).

*See also:*

- *Amortization*
- *Asset*

## **Derivative**

A derivative instrument is a financial instrument or other contract that has all of the following characteristics:

- *Settlement factors*
- *Leverage*
- *Net settlement*

Settlement factors include the reference rate, notional amount, and payment provision. The reference rate is a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable. The notional amount is the number of currency units, shares, bushels, pounds, or units specified in the derivative instrument. Finally, the payment provision may specify a payment to be made if the reference rate behaves in a specified manner.

Leverage is achieved by either a small or no initial net investment that allows for the derivative instrument to have changing cash flows or fair values that replicate an instrument that would normally require a much larger investment.

Net settlement means that the contract can be readily settled net by means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement. (GASB 53, paragraphs 7-13)

## **Detection Risk**

Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements. (AU-C 200.14)

*See also:*

- *Control Risk*
- *Inherent Risk*
- *Misstatement/Material Misstatement*
- *Noncompliance*
- *Risk*

### **Disclaimer of Opinion**

An auditor disclaims the opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any could be both material and pervasive. (AU-C 705.10)

*See also: Types of Financial Statement Audit Report Opinions*

### **Detective Control**

A detective control is put in place to detect and correct errors or fraud that have already occurred and that could result in a misstatement of the financial statements. (AU-C 940.05)

*See also: Internal Control*

### **Disaster Recovery Plan**

A written plan for processing critical applications in the event of a major hardware or software failure or destruction of facilities. This plan allows management to anticipate potential risks to facilities, such as a natural disaster or system failure, and develop a plan to recover or relocate in order to continue operations. ([www.csrc.nist.gov/glossary](http://www.csrc.nist.gov/glossary))

### **Disallowed Cost**

Disallowed costs are those charges to a Federal award that the Federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the Federal award. (2 CFR 200.1)

*See also: Single Audit*

### **Due Professional Care**

The American Institute of Certified Public Accountants (AICPA) states that a member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability (AICPA Code of Professional Conduct, 0.300.060 Due Care)



### **Earmarking**

Earmarking includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered. (OMB Compliance Supplement 2023, 3.1-G.1)

*See also: Compliance Requirements of a Single Audit*

### **Elements of a Finding**

Findings require that certain information be presented as a part of the finding in order to appropriately describe the deficiencies noted. Findings related to the financial statements must include the elements required in GAGAS 4.11 to 4.14. Findings related to major federal programs must include the elements required in 2 CFR 200.516(b).

*See also: Finding*

### **Eligibility Requirements**

Eligibility refers to the criteria used to determine the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify. The specific requirements for eligibility are unique to each Federal program and can be found in the laws, regulations, and provisions of contracts and grant agreements for the program. (OMB Compliance Supplement, July 2023, page 3.1-E-1)

*See also: Compliance Requirements of a Single Audit*

### **Emphasis-of-matter Paragraph**

An emphasis-of-matter paragraph is included in the auditor's report that is required by generally accepted auditing standards (GAAS) or is included at the auditor's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements. (AU-C 706.07)

*See also:*

- *Audit Report*
- *Financial Statements*

### **Engagement Letter**

The engagement letter documents the agreed-upon terms of the audit between the auditors and those charged with governance. The agreement should include the objective and scope of the audit, the responsibilities of the parties involved, the timing of the audit, and the expected form and content of reports that will be issued by the auditor. (AU-C 210.10)

*See also: Those Charged with Governance*

### **Enterprise Fund**

Enterprise funds are a proprietary fund type in governmental accounting. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. (GASB Codification 1300.109) Examples of enterprise funds include utilities, parking facilities, and child day care services at schools. *See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Fund/Fund Accounting*

### **Entrance Conference**

An entrance conference establishes a climate of cooperation, informs local government officials, other top management, and the governing boards about the audit process and offers the officials the opportunity for input. The Lead Auditor, who will work directly with the unit, and the Audit Manager, who will oversee and review the audit process, will be present at the entrance conference. They will explain the audit process in more detail.

In preparation for the audit, records for the audit period should be located and made available for audit. Records requested will include: board minutes for all boards and departments; approved budgets; annual financial reports; fund and appropriation ledgers; bank reconcilements and bank statements; investment registers; receipts; claim vouchers; payroll records; capital asset records; debt schedules; lease agreements; contracts; written internal control procedures/policies and federal grant files.

*See also:*

- *Audit Report*
- *Exit Conference*
- *Objectives*

### **Equipment and Real Property Requirements**

Equipment refers to tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000. (2 CFR 200.1)

Real Property refers to land, including land improvements, structures, and appurtenances thereto, but excludes moveable machinery and equipment. (2 CFR 200.1)

*See also: Compliance Requirements of a Single Audi*

### **Exit Conference**

The exit conference is a meeting between the auditors and the public officials of the entity undergoing the audit. The draft of the audit report and all findings will be discussed at the exit conference. This meeting provides local officials the opportunity to clarify issues that are to be included in the final report. The exit conference is not a public meeting and the audit report is not considered a public document until the draft report has a final review.

*See also:*



- *Entrance Conference*
- *Finding*

### **Expenditure/Expense**

*Expenditures* represent a decrease in net financial resources on the governmental fund financial statements, such as a payment from the general fund or special revenue funds (GASB Cod. Sec. 1600.116). *Expenses* refer to payments made on the proprietary fund statements, either for business-type activities or internal service funds. (GASB Codification 1600.130)



### **Federal Audit Clearinghouse (FAC)**

The Federal Audit Clearinghouse (FAC) means the clearinghouse designated by OMB as the repository of record where non-Federal entities are required to transmit the reporting packages required by the Code of Federal Regulations Audit Requirements.

The mailing address of the FAC is Federal Audit Clearinghouse, Bureau of the Census, 1201 E. 10th Street, Jeffersonville, IN 47132. The web address is: <http://harvester.census.gov/sac/>.

Any future updates to the location of the FAC may be found at the OMB Web site. (2 CFR 200.1)

*See also*

- *Compliance Requirements in a Single Audit*
- *Federal Award*
- *Single Audit*

### **Federal Award**

Federal award has the meaning, depending on the context, in either paragraph (a) or (b) of this section:

(a)(1) The Federal financial assistance that a non-Federal entity receives directly from a Federal awarding agency or indirectly from a pass-through entity, as described in § 200.101 Applicability; or

(2) The cost-reimbursement contract under the Federal Acquisition Regulations that a non-Federal entity receives directly from a Federal awarding agency or indirectly from a pass-through entity, as described in § 200.101 Applicability.

(b) The instrument setting forth the terms and conditions. The instrument is the grant agreement, cooperative agreement, other agreement for assistance covered in paragraph (b) of § 200.40 Federal financial assistance, or the cost-reimbursement contract awarded under the Federal Acquisition Regulations.

(c) Federal award does not include other contracts that a Federal agency uses to buy goods or services from a contractor or a contract to operate Federal Government owned, contractor operated

facilities (GOCOs). (2 CFR 200.1) Examples of federal awards in Indiana include the Highway Planning and Construction, Child Support Enforcement, and Formula Grants for Rural Areas.

*See also*

- *Federal Program*
- *Recipient*

### **Federal Awarding Agency**

The federal awarding agency means the Federal agency that provides a Federal award directly to a non-Federal entity. (2 CFR 200.1)

*See also:*

- *Compliance Requirements in a Single Audit*
- *Federal Award*
- *Single Audit*

### **Federal Program**

All federal awards which are assigned a single Assistance Listings Number. When no Assistance Listings Number is assigned, all Federal awards from the same agency made for the same purpose must be combined and considered one program. (2 CFR 200.1)

*See also: Major Federal Program*

### **Fiduciary Fund**

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds (GASB Codification 1300.102c).

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Fund/Fund Accounting*

### **Financial Accounting Standards Board (FASB)**

The Financial Accounting Standards Board (FASB) is the independent, private-sector, not-for-profit organization that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles. (<https://fasb.org/facts>)

*See also: Generally Accepted Accounting Principles (GAAP)*

### **Financial Reporting Entity**

The financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine,

through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. (GASBS 61, paragraph 4)

*See also:*

- *Financial Statements*
- *Primary Government*

### **Financial Statement Audit**

The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework, which enhances the degree of confidence that intended users can place in the financial statements. An audit conducted in accordance with generally accepted auditing standards (GAAS) and relevant ethical requirements enables the auditor to form that opinion. (AU-C 200.04)

*See also:*

- *Financial Statements*
- *Generally Accepted Accounting Principles (GAAP)*

### **Financial Statements**

A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. (AU-C 200.14)

*See also:*

- *Comparative Financial Statements*
- *Financial Statement Audit*
- *Fund Financial Statements*
- *Government-Wide Financial Statements*

### **Finding**

A finding is a written comment in the report regarding the failure of an audited entity to observe a uniform compliance guideline established under Indiana Code 5-11-1-24, or to comply with a specific law. (Guidelines for Repeat Finding Corrective Action Plan)

Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations contracts and grant agreements; or instances of fraud or abuse. (GAGAS 4.10)

The auditor must report the following as audit findings in a schedule of findings and questioned costs:

- (1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs.
- (2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program.
- (3) Known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program.
- (4) Known questioned costs that are greater than \$25,000 for a Federal program which is not audited as a major program.
- (5) The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
- (6) Known or likely fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
- (7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with § 200.511 Audit findings follow-up, paragraph (b) materially misrepresents the status of any prior audit finding. (2 CFR 200.516)

*See also:*

- *Abuse*
- *Attestation Engagements*
- *Elements of a Finding*
- *Financial Statement Audit*
- *Fraud*
- *Internal Control*
- *Performance Audit*
- *Recommendation*
- *Repeat Finding*

### **Fiscal Year**

A fiscal year is an accounting period of 365 days that does not necessarily correspond to the calendar year beginning on January 1. The fiscal year is the established period of time when an organization's annual financial records commence and conclude. (Merriam-Webster) Indiana's fiscal year runs from July 1 to June 30.

### **Fraud**

Fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit. (AU-C 240.11)

*See also:*

- *Abuse*
- *Fraud Risk Factors*
- *Fraudulent Financial Reporting*

### **Fraud Risk Factors**

Fraud risk factors are events or conditions that indicate an incentive or pressure to perpetrate fraud, provide an opportunity to commit fraud, or indicate attitudes or rationalizations to justify a fraudulent action. (AU-C 240.11)

*See also: Fraud*

### **Fraudulent Financial Reporting**

Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users. (AU-C 240.A2)

*See also:*

- *Financial Statements*
- *Fraud*
- *Fraud Risk Factors*

### **Fund Balance**

Fund balance is the difference between governmental fund assets and liabilities. It is essentially what remains after the assets are used to meet the liabilities. (NCGAS 1, paragraph 18)

*See also:*

- *Asset*
- *Liability*

### **Fund Financial Statements**

Fund financial statements report additional and detailed information about the primary government, in contrast to the government-wide financial statements. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet criteria for using those funds. (GASB 34, paragraph 63)

*See also:*

- *Financial Statements*
- *Fund/fund Accounting*

### **Fund/Fund Accounting**

A fund is a fiscal and accounting entity with a self-balancing set of accounts. It records cash and other financial resources, together with all related liabilities and residual balances. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives. Examples of funds for specific activities include education funds, debt service funds, or the local road and street fund. (GASB Codification 1300 introduction)

*See also:*

- *Financial Statements*
- *Fund Type*

## **Fund Type**

There are three overarching fund types in which all individual funds will be categorized. *Governmental funds* consist of the general fund, special revenue funds, capital project funds, debt service funds, and permanent funds. *Proprietary funds* consist of enterprise funds and internal service funds. *Fiduciary funds* consist of pension (and other employee benefits) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. (GASB 84, paragraph 18)



## **General Fund**

The general fund is a governmental fund that is used to account for and report all financial resources not accounted for and reported in another fund. (GASB Cod. Sec. 1300.104)

*See also: Fund/Fund Accounting*

## **Generally Accepted Accounting Principles (GAAP)**

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments—regardless of jurisdictional legal provisions and customs—contain the same types of financial statements and disclosures. (GASB Cod. Sec. 1200.101)

*See also: Financial Statements*

## **Generally Accepted Auditing Standards (GAAS)**

Independent auditors plan, conduct, and report the results of an audit in accordance with generally accepted auditing standards (GAAS) that are developed by the Auditing Standards Board, a committee for the AICPA. GAAS enables practitioners to provide high-quality, objective audit services in an effective and efficient manner. GAAS are standards against which the quality of audits may be judged. (<https://us.aicpa.org/research/standards/auditattest/asb>)

*See also:*

- *Financial Statement Audit*

- *Generally Accepted Government Auditing Standards*
- *Single Audit*

### **Generally Accepted Government Auditing Standards (GAGAS)**

Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book or Government Auditing Standards, provide a framework for conducting high-quality audits with competence, integrity, objectivity and independence. GAGAS is issued by the U.S. Government Accountability Office.

The Yellow Book is used by auditors of government entities and assists auditors of federal, state, and local government programs. GAGAS also outlines the requirements for audit reports, professional qualifications for auditors, and quality control (Yellow Book, page 1).

( [www.gao.gov/yellowbook/overview](http://www.gao.gov/yellowbook/overview))

*See also:*

- *Accountability*
- *Transparency*

### **Going-Concern**

Going-concern refers to substantial doubt about an entity's ability to continue as a going concern exists when conditions and events indicate that it is likely that the entity will be unable to meet its obligations as they become due within one year after the financial statements are issued. (FASB Master Glossary)

Financial statement preparers have a responsibility to evaluate whether there is substantial doubt about a government's ability to continue as a going concern for 12 months beyond the financial statement date. (GASB 56, paragraph 16)

Indicators of a going concern include default on bonds, disposal of substantial assets, legal proceedings, or noncompliance with statutory requirements. (GASB 56, paragraph 17)

### **Government Accountability Office (GAO)**

The U.S. Government Accountability Office is an independent, nonpartisan agency that works for congress. The GAO examines how taxpayer dollars are spent and provides Congress and federal agencies with objective, reliable information to help the government save money and work more efficiently. ([www.gao.gov/about](http://www.gao.gov/about))

### **Governmental Accounting Standards Board (GASB)**

The Governmental Accounting Standards Board establishes accounting and financial reporting standards for U.S. state and local governments that follow generally accepted accounting principles (<https://www.gasb.org/aboutgasb>).

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*

- *Financial Statements*
- *Fund/Fund Accounting*
- *General Fund*

### **Governmental Activities**

Governmental activities are generally financed through taxes, intergovernmental revenues, and nonexchange revenues. These activities are reported in governmental funds and internal service funds. (GASB 34, paragraph 15)

*See also:*

- *Governmental Funds*
- *Internal Service Funds*

### **Governmental Funds**

Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. (GASB 34, paragraph 64)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Financial Statements*
- *Fund/Fund Accounting*
- *General Fund*

### **Government-Wide Financial Statements**

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements present the overall government on the accrual basis of accounting. The government's governmental and business-type activities are presented, as well as the government's component units. Individual funds, fund types, or fiduciary activities are not displayed on these statements, but are shown instead on the fund financial statements. (GASB 34, paragraph 12)

*See also: Fund Financial Statements*

### **Grant**

A grant is a form of federal financial assistance that funds ideas and projects to provide public services and stimulate the economy. Grants support critical recovery initiatives, innovative research, and other program types listed in the Catalog of Federal Domestic Assistance (CDFA). (<https://www.grants.gov/learn-grants/grants-101.html>)

*See also:*

- *Assistance Listing Number (ALN)*
- *Grantor*



## Grant Agreement

*Grant agreement* means a legal instrument of financial assistance between a Federal awarding agency or pass-through entity and a non-Federal entity that, consistent with 31 U.S.C. 6302, 6304:

- a. Is used to enter into a relationship the principal purpose of which is to transfer anything of value from the Federal awarding agency or pass-through entity to the non-Federal entity to carry out a public purpose authorized by a law of the United States (see 2 CFR 200.1); and not to acquire property or services for the Federal awarding agency or pass-through entity's direct benefit or use;
- b. Is distinguished from a cooperative agreement in that it does not provide for substantial involvement between the Federal awarding agency or pass-through entity and the non-Federal entity in carrying out the activity contemplated by the Federal award.
- c. Does not include an agreement that provides only:
  - 1) Direct United States Government cash assistance to an individual;
  - 2) A subsidy;
  - 3) A loan;
  - 4) A loan guarantee; or
  - 5) Insurance. (2 CFR 200.51)

*See also:*

- *Assistance Listing Number (ALN)*
- *Grant*

## Grantor

A government agency from which funding for the government program originates. (AU-C 935.11)

*See also:*

- *Catalog of Federal Domestic Assistance (CFDA)*
- *Grant*
- *Grantee*

## Grantee

A grantee is an individual or an organization that is the recipient of a grant.

*See also:*

- *Catalog of Federal Domestic Assistance (CFDA)*
- *Grant*
- *Grantor*

## Green Book

The official title of the Green Book is Standards for Internal Control in the Federal Government. It sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system ([www.gao.gov/products/GAO-14-704G](http://www.gao.gov/products/GAO-14-704G)).

See also: *Standards for Internal Control in the Federal Government (Green Book)*



## **Improper Payment**

An improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements.

Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper. (2 CFR 200.1)

## **Independence**

In order to perform an audit, the audit organization and the individual auditors must be independent. Independence allows an auditor to act with integrity, exercise objectivity, and practice professional skepticism while conducting an engagement. Independence consists of two elements, defined as follows:

*Independence of mind* is the state of mind that permits a member to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

*Independence in appearance* is the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including the safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or member of the attest engagement team is compromised (AU-C 700.22-46).

Auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work/ (GAGAS 3.04)

See also:

- *Audit*
- *Audit report*

- *Financial Statements*
- *Finding*
- *Independent Auditor (external Auditor)*
- *Professional Judgment*
- *Professional Skepticism*

### **Independent Auditor (External Auditor)**

The independent auditor is the individual conducting the audit. (AU-C 200.14) This individual is independent in both fact and appearance from the entity being audited. The State Board of Accounts and its Field Examiners are independent of the governmental units being audited.

*See also:*

- *Independence*
- *Internal Auditor*

### **Independent Auditor's Report**

The independent auditor's report is a formal letter to communicate the results of the audit. The report will also include the auditor's opinion on the financial statements and whether they are presented fairly in accordance with generally accepted auditing standards (GAAP) or the other comprehensive basis of accounting that is applicable. (AU-C 700.22)

*See also:*

- *Audit Report*
- *Financial Statements*

### **Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control over Compliance**

Pursuant to a single audit, the auditor will issue a report on compliance for each major program and a report on internal control over compliance pursuant. This report must describe the scope of testing of internal control over compliance, include an opinion or disclaimer of opinion as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program and refer to the separate schedule of findings and questioned costs.

*See also:*

- *Compliance Requirements in a Single Audit*
- *Disclaimer of Opinion*
- *Findings*

- *Internal Control*
- *Schedule of Findings and Questioned Costs*
- *Single Audit*

### **Independent Auditor's Report on Internal Control and Compliance over Financial Reporting**

When conducting an audit in accordance with generally accepted government auditing standards (GAGAS), auditors will also report on internal control and compliance with laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. The report should include any findings relating to significant deficiencies or material weaknesses in internal control, as well as noncompliance with laws, regulations, contracts, or grant agreements. (GAGAS 6.39)

*See also:*

- *Financial Statement Audit*
- *Financial Statements*
- *Findings*
- *Generally Accepted Government Auditing Standards (GAGAS)*
- *Independent Auditor (External Auditor)*
- *Independent Auditor's Report*
- *Internal Control*
- *Material Weaknesses*
- *Significant Deficiently*

### **Independent Auditor's Report on the Schedule of Expenditures of Federal Awards (SEFA)**

The auditor's report(s) may be in the form of either combined or separate reports. The auditor's report(s) must state that the audit was conducted in accordance with Uniform Guidance and include the following:

- An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles; and
- An opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole. (2 CFR 200.515)

*See also:*

- *Disclaimer of Opinion*
- *Financial Statements*
- *Independent Auditor (External Auditor)*
- *In-Relation-To Opinion*
- *Schedule of Expenditures of Federal Awards (SEFA)*
- *Single Audit*
- *Uniform Guidance*

### **Indiana Gateway for Governmental Units**

The purpose of the Indiana gateway for Governmental Units (Gateway) is to provide an open door into local government finance. Gateway collects and provides access to information about how taxes and other public dollars are budgeted and spent by Indiana's local units of government. (<https://gateway.ifionline.org/>)

*See also:*

- *Accountability*
- *Transparency*

### **Indirect Cost**

Indirect Facilities and Administrative costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. (2 CFR 200.1)

*See also:*

- *Federal Award*
- *Indirect Cost Rate*

### **Indirect Cost Rate**

Indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base. (2 CFR 200 Appendix VII B.7)

*See also:*

- *Cognizant Federal Agency*
- *Federal Award*
- *Indirect Costs*

### **Inherent Risk**

The susceptibility of certain financial information to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls (AU-C 200.14). Inherent risk is higher for complex calculations, amounts that are derived from accounting estimates, and other areas involving professional judgment. (AU-C 200.A42)

*See also:*

- *Control Risk*
- *Detection Risk*
- *Risk*

### **Information and Communication**

Information and communication refers to the quality information management and personnel communicate and use to support the internal control system. (Standards for Internal Control in the Federal Government OV 2.04)

*See also: Components of Internal Control*

### **Infrastructure Asset**

An infrastructure asset is a long-lived capital asset that is normally stationary and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, drainage systems, certain buildings, or lighting systems. (GASB 34, paragraph 19)

*See also:*

- *Asset*
- *Capital Asset*

### **In-Kind Contributions**

In-kind contributions are nonfederal contributions from the nonfederal entity that are in the form of goods or services. In-kind contributions can be used to meet matching requirements for Federal awards as long as they are in accordance with the grant agreement. (OMB Compliance Supplement, 2023, 3-G-1 and 3-G-3).

*See also:*

- *Federal Award*
- *Grant*
- *Grantee*

### **In-Relation-To Opinion**

When an auditor is engaged to report on supplementary information in relation to the financial statements as a whole, an in-relation-to opinion is given. For these engagements, the auditor's objective is to (1) evaluate the presentation of the supplementary information in relation to the financial statements as a whole and (2) Report on whether the supplementary information is fairly stated, in all material respect, in relation to the financial states as a whole. (AU-C 725.03)

*See also: Supplementary Information*

### **Internal Auditor**

An internal auditor is employed within a governmental unit as part of the internal control system. The internal auditor evaluates the unit's internal control system and works to improve the system's effectiveness. (AU-C 610.12) Any deficiencies noted by the internal auditor can be fixed prior to the audit by an external auditor.

*See also: Independent Auditor (External Auditor)*

## **Internal Control**

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (Green Book 5). Internal control serves as a first line of defense in safeguarding assets and helps management achieve desired results through effective stewardship of public resources.

Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of the entity's internal control system. Management is also tasked with evaluating the effectiveness of the internal control system. An entity's personnel is responsible for helping management implement and operate the internal control system. (Standards for Internal Control in the Federal Government OV 2.14)

After June 30, 2016, IC 5-11-1-27(g) provides that the legislative body of each governmental unit must adopt the minimum internal control standards as defined by the State Board of Accounts. Additionally the legislative body must ensure that the personnel receive training concerning the internal control standards and procedures adopted by the unit. When governmental units submit the Annual Financial Report through Gateway, the fiscal officer is required to certify that the minimum internal control standards have been adopted and the personnel have received training regarding these standards and procedures. ([www.in.gov/sboa/5072.htm](http://www.in.gov/sboa/5072.htm))

*See also:*

- *Components of Internal Control*
- *Fraud*
- *Standards for Internal Control in the Federal Government (Green Book)*

## **Internal Control Deficiency**

An internal control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of operations, to prevent or detect and correct, misstatements on a timely basis.

A design deficiency exists when a control is either missing entirely or the existing control is not designed properly to achieve the control objective.

A deficiency in operation exists in two scenarios. First, a control, although properly designed, does not operate as it was intended. Alternatively, the individual performing the control does not possess the authority or competence to perform the control effectively. (AU-C 265.07)

*See also:*

- *Internal Control*  
*Material Noncompliance*
- *Material Weakness*
- *Misstatement/Material Misstatement*
- *Significant Deficiency*

## **Internal Service Fund**

Internal service funds are proprietary funds that are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component unit, or to other governments, on a cost-reimbursement basis. These funds are only used when the reporting government is the predominant participant in the activity. (GASB 34, paragraph 68)

*See also: Fund/Fund Accounting*

## **L**

### **Liability**

Liabilities are present obligations to sacrifice resources that a government has little or no discretion to avoid. (GASBSC 4, paragraph 17)

## **M**

### **Maintenance of Effort**

Maintenance of effort is part of the level of effort requirements. This is a requirement for the nonfederal entity to maintain a specified level of service provided from period to period or maintain a specified level of expenditures from nonfederal and federal sources on specified activities from period to period. (OMB Compliance Supplement 20233.1-G-1)

*See also*

- *Compliance Requirements in a Single Audit*
- *Federal Award*
- *Federal Program*

### **Major Federal Program**

Auditors must use a risk-based approach to determine which federal programs are major federal programs. This risk-based approach must include a consideration of current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. (2 CFR 200.518)

### **Major Fund**

Major funds are the focus of the governmental and proprietary fund financial statements. Each major fund should be reported in a separate column on the financial statements. This allows readers to identify the government's most important and largest funds. Major funds are determined by a mathematical calculation; however, if a fund does not meet the major fund threshold, but the government officials believe it is particularly important to financial statement users, the government may include it as a major fund. (GASB Cod. Sec. 2200.158-159)



## **Malfeasance**

The wrongful or unjust doing some act which the doer has no right to perform, or which he has stipulated by contract not to do. (Black's Law Dictionary)

*See also:*

- *Misfeasance*
- *Nonfeasance*

## **Management's Discussion and Analysis**

Management's discussion and analysis (MD&A) provides an objective and easy-to-read analysis of the government's financial activities over the reporting period. MD&A is required supplementary information that is prepared by management and appears before the financial statements. (GASB 34, paragraph 8)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Financial Statements*
- *Required Supplementary Information*

## **Management's Specialist**

An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (AU-C 620.06)

## **Matching Requirements**

Matching, or cost sharing, includes requirements to provide contributions of a specified amount or percentage to match the federal awards. These additional contributions are usually non-federal in nature. Matching may be in the form of allowable costs incurred or in-kind contributions. (OMB Compliance Supplement 2023, 3.1-G-1)

*See also:*

- *Allowable Costs*
- *Earmarking Requirements*
- *In-Kind Contributions*

## **Material/Materiality**

The auditor's determination of materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements. For example, when determining materiality, the auditor should assume that the financial statement users will make economic decisions based on the information presented in the financial statements. (AU-C 320.04)

*See also*

- *Financial Statements*

- *Performance Audit*
- *Professional Judgement/Professional Skepticism*
- *Significance*

### **Material Noncompliance**

In the absence of a definition of material noncompliance in the governmental audit requirement, noncompliance with the applicable compliance requirements is considered quantitatively material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the entity's compliance with the requirements of the government program as a whole (AU-C 935.11).

*See also*

- *Major Federal Program*
- *Material/Materiality*
- *Noncompliance*

### **Material Weakness**

A deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. (AU-C 265.07)

*See also*

- *Compliance Requirements in a Single Audit*
- *Financial Statements*
- *Internal Control Deficiency*
- *Material/Materiality*
- *Material Noncompliance*
- *Significant Deficiency*

### **Methodology**

The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level. (GAGAS 8.06 and 8.11)

*See also*

- *Evidence*
- *Finding*
- *Objectives*

- *Risk*
- *Sampling*

### **Misfeasance**

Misfeasance is not doing a lawful act in a proper manner. It also refers to omitting to do an act as it should be done. (Black's Law Dictionary)

*See also:*

- *Malfeasance*
- *Nonfeasance*

### **Misstatement/Material Misstatement**

A misstatement is a difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable reporting framework. Misstatements can arise from fraud or error. To determine if a misstatement is material, the auditor must exercise professional judgment and evaluate various circumstances. Financial statements that are materially misstated are not presented fairly in all material respects. (AU-C 450.04)

*See also*

- *Control Risk*
- *Detection Risk*
- *Financial statements*
- *Fraud*
- *Inherent Risk*
- *Risk*

### **Modified Accrual Basis of Accounting**

As the name implies, this basis of accounting is a modification on the accrual basis. The modified accrual basis is used to measure the flow of current financial resources on the governmental fund financial statements. Under modified accrual, revenues are recognized when they become available and measurable. Expenditures and transfers out are measurable and should be recorded when the related liability is incurred. (NCGAS 1, paragraphs 61-62; 70; 72)

*See also*

- *Accrual Basis of Accounting*
- *Expenditure/Expense*
- *Liability*
- *Modified opinion*
- *Revenue*
- *Types of Financial Statement Audit Report Opinions*
- *Types of Single Audit Compliance Report Opinions*

## **Monitoring**

Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It involves assessing the effectiveness of controls on a timely basis and taking necessary remedial actions. Management accomplishes monitoring of controls through ongoing activities, such as regular management and supervisory activities, or through a separate evaluation (AU-C 315.A114). Part of an auditor's responsibility is to assess the effectiveness of management's monitoring and evaluation activities. (AU-C 315.23)

*See also: Components of Internal Control*



## **Net Position**

Net position is the residual of all other elements presented in a statement of financial position. Net position is an element of the statement of financial position and is measured by the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The amount of net position maintains a specific relationship with the net activity in the resource flows statement. The increase or decrease in net position from one period to the next equals the net of all activity reported in the resource flows statement for that period. Also, the total balance of net position at any point in time theoretically equals the cumulative total of all resource flows statement activity from inception. Net position may have a positive or a negative balance. The net position is calculated as the residual balance on statements of net position. (GASBCS 4, paragraphs 36-37)

## **Noncompliance**

Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. Noncompliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity. (AU-C 250.11)

## **Nonfeasance**

Nonfeasance is an omission to perform a duty, or a total neglect of duty. (Black's Law Dictionary)

*See also:*

- *Malfeasance*
- *Misfeasance*

## **Nonmajor Fund**

Any governmental or enterprise fund that does not meet the major fund threshold is considered nonmajor. Nonmajor funds are aggregated and presented in a single column on the financial statements. (GASB 34, paragraph 75)

*See also:*

- *Fund/Fund Accounting*
- *Independent Auditor's Report*
- *Major Fund*

### **Notes to the Financial Statements**

The notes to the financial statements should communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, notes are an integral part of the basic financial statements. For governmental units, the notes should focus on the primary government, specifically, its governmental activities, business-type activities, major funds, and the total nonmajor funds. Additional disclosures may be required to explain a particular financial position that the unit took when reporting. The notes can include both descriptive and quantitative information to assist readers in understanding the financial statements. (GASB 34, paragraph 113)

*See also: Financial Statements*



### **Objectives**

Objectives determine the type of audit to be performed and the applicable standards to be followed. (GAGAS 1.14) The objectives will be different, depending on the type of engagement. When conducting an audit of the financial statements, the objectives of the auditors are to obtain reasonable assurance about whether the financial statements are free from material misstatement and to report on the financial statements. (AU-C 200.12)

### **Other Comprehensive Basis of Accounting (OCBOA)**

Other comprehensive bases of accounting commonly refers to the cash basis, tax basis, regulatory basis and other basis of accounting. These bases are special purpose frameworks other than generally accepted accounting principles (GAAP) that are used to prepare financial statements. (AU-C 800.07)

*See also:*

- *Cash Basis*
- *Regulatory Basis*
- *Special Purpose Framework*

### **Other Postemployment Benefits (OPEB)**

Other postemployment benefits (OPEB) are benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave. (GASB 74, paragraph 63)

## **Office of Management and Budget – Federal (OMB)**

The federal Office of Management and Budget (OMB) evaluates, formulates, and coordinates management procedures and program objectives within and among Federal departments and agencies. OMB serves the President of the United States in overseeing the implementation of the President’s vision across the Executive Branch. Specifically, OMB’s mission is to assist the President in meeting policy, budget, management and regulatory objectives. (<https://www.whitehouse.gov/omb/>)

Additionally, the OMB as oversight of management performance, federal procurement, financial management, and information technology. Uniform Guidance is provided by OMB and lays the groundwork for processing data, clarifies reporting guidelines, and establishes audit requirements of federal awards.

(<https://www.grants.gov/web/grants/learn-grants/grant-policies/omb-uniform-guidance-2014.html>)

*See also: Uniform Guidance*

## **Opinion Unit**

An opinion unit is a reporting unit, or aggregation of reporting units, of a governmental entity. The auditor is responsible for forming an opinion on the financial statements for each opinion unit with a governmental entity. (AU-C 700.A6)

## **Other-Matter Paragraph**

An other-matter paragraph refers to a matter other than those presented or disclosed in the financial statements. The paragraph is included if it is required by generally accepted auditing standards (GAAS) or at the auditor’s discretion if the auditor determines that the matter is relevant users’ understanding of the auditor, auditor’s responsibilities, or the auditor’s report. (AU-C 706.07)

# **P**

## **Pass-Through Entity**

Pass-through entity means a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program. (2 CFR 200.74)

*See also:*

- *Subaward*
- *Subrecipient*

## **Peer Review**

An external peer review is required for each audit organization conducting engagements in accordance with generally accepted government auditing standards (GAGAS). The audit organization

should obtain an external peer review at least once every 3 years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards. (GAGAS 5.60 and 5.84)

The Indiana State Board of Accounts undergoes an external peer review once every three years. Peer review is conducted by the National State Auditors Association. The most recent peer review, which reviewed the period October 1, 2020 through September 30, 2021, rendered a pass opinion. A pass opinion conveys that the agency's quality control system was suitable designed to provide reasonable assurance and that the agency is following applicable auditing standards. (<https://www.in.gov/sboa/4437.htm>).

## **Performance Audit**

Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to, among other things, improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. In a performance audit, the auditors measure or evaluate the subject matter of the audit and present the resulting information as part of, or accompanying, the audit report (GAGAS Glossary; see also: GAGAS 1.21 and 8.14).

## **Performance Measures**

Performance measures are used by governments to collect information about operational activities, achievement of goals, community conditions, or other environmental factors to better understand a situation and make informed decisions (<https://www.gfoa.org/materials/performance-measures>).

*See also:*

- *Compliance Requirements in a Single Audit*

## **Permanent Fund**

Permanent funds should be used to report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs to benefit the government or its citizenry. (GASB 34, paragraph 65)

*See also: Fund/Fund Accounting*

## **Pervasive**

Pervasive effects on the financial statements are those that, in the auditor's professional judgment:

- are not confined to specific elements, accounts, or items of the financial statements;
  - if so confined, represent or could represent a substantial proportion of the financial statements;
- or

- with regard to disclosures, are fundamental to users' understanding of the financial statements.

This term is used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. (AU-C 705.06)

*See also:*

- *Adverse Opinion*
- *Material/Materiality*
- *Qualified Opinion*
- *Types of Financial Statement Audit Report Opinions*

## **Population**

A population is the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. (AU-C 530.05)

*See also: Sampling*

## **Postemployment Benefits**

Postemployment benefits are a form of employee compensation that eligible employees receive after they have completed their active service. Examples include medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment (GASB 75, paragraph 8).

*See also: Other Postemployment Benefits*

## **Preventive Controls**

Preventive controls are established with the objective of preventing errors or fraud that could result in a misstatement of the financial statements. (AU-C 940.05)

## **Primary Government**

A primary government is any state government or general purpose local government, such as a municipality or a county. A primary government is also a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent from other state and local governments. Examples include a school district or a park district. The primary government is generally the focal point for the users of the financial statements. (GASB 14, paragraph 13)

## **Procurement and Suspension and Debarment Requirements**

Procurement refers to policies and procedures that are used in the process of obtaining goods and services necessary to carry out the objectives of a Federal program. The requirements related to procurement of goods and services under a Federal award can be found in 2 CFR 200.317 through 2 CFR 300.327.



Suspension refers to an action taken by a suspending official under subpart G of this part that immediately prohibits a person from participating in covered transactions and transactions covered under the Federal Acquisition Regulation (48 CFR chapter 1) for a temporary period, pending completion of an agency investigation and any judicial or administrative proceedings that may ensue. A person so excluded is suspended. (2 CFR 180.1015)

*See also:*

- *Compliance Requirements in a Single Audit*
- *Suspension and Debarment*

### **Professional Judgment**

The application of the auditor's relevant training, knowledge, and experience to make informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. (AU-C 200.14)

*See also: Professional Skepticism*

### **Professional Skepticism**

Professional skepticism is an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence. (AU-C 200.14)

*See also: Professional Judgment*

### **Program Income**

Notwithstanding 2 CFR 200.1, program income means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance except as provided in CFR §200.307 paragraph (f). (See 2 CFR 200.1 Definitions).

Program income includes but is not limited to income from fees for services performed, the use or rental or real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with Federal award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in Federal statutes, regulations, or the terms and conditions of the Federal award, program income does not include rebates, credits, discounts, taxes special assessments, levies and fines raised by a grantee and subgrantee, and interest earned on any of them. (2 CFR §1201.80)

*See also:*

- *Compliance Requirements in a Single Audit*
- *Matching Requirements*
- *Program Income Requirements*

### **Proprietary Fund**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The proprietary fund category consists of enterprise funds and internal service funds. (GASB 34, paragraph 66)

*See also: fund/fund accounting*

## **Public Record**

Indiana Code 5-14-3-1 states that it is the public policy of the state that all persons are entitled to full and complete information regarding the affairs of government and the official acts of those who represent them as public officials and employees. Providing persons with the information is an essential function of a representative government and an integral part of the routine duties of public officials and employees, whose duty it is to provide the information.

In general, all records of a public agency must be disclosed upon request, unless the record falls under a statutory exception. Examples of such exceptions include trade secrets; confidential information pertaining to adoption or patient medical records; or confidential financial information obtained upon request of an agency. (<https://www.indy.gov/activity/access-to-public-records-act>)

## **Q**

### **Qualified Opinion**

There are two situations in which the auditor should express a qualified opinion. First, the auditor has obtained sufficient, appropriate evidence and concludes that misstatements, either individually or in the aggregate, are material but not pervasive to the financial statements.

The second situation occurs when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. (AU-C 705.08)

*See also:*

- *Material/Materiality*
- *Pervasive*
- *Types of Financial Statement Audit Report Opinions*

### **Questioned Costs**

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;

- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. (2 CFR 200.1)

*See also*

- *Questioned Cost Resolution*
- *Single Audit*

### **Questioned Cost Resolution**

The auditor's designation of a cost as questioned does not necessarily mean that a federal awarding agency will disallow the cost. In most instances, the auditor is unable to determine whether a federal awarding agency or pass-through entity will ultimately disallow a questioned cost because the agency or entity has considerable discretion in those matters. (AICPA Audit Guide Government Auditing Standards and Single Audits, 10.63)

*See also: Disallowed Costs*

## **R**

### **Recommendation**

Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. (GAGAS 9.23)

*See also:*

- *Elements of a Finding*
- *Finding*
- *Performance Audit*

### **Relevance of Audit Evidence**

Relevance of audit evidence refers to the logical connection with the audit procedure performed and the assertion or conclusion that the procedures supports. (AU-C 500.A19)

*See also: Appropriateness of Audit Evidence*

### **Reporting Requirements**

The nonfederal entity that receives a federal award is required to report financial, performance, and special information as required by the Federal awarding agency or the pass-through entity.

Every governmental unit is required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural

matters of federal state agencies (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies).

*See also: Compliance Requirements in a Single Audit*

### **Regulatory Basis**

A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject. (AU-C 800.07)

### **Repeat Finding**

A finding in a subsequent report that is the same as or substantially similar to the finding contained in a previous report. (<https://www.in.gov/sboa/files/1031-Guidelines.pdf>)

### **Representation Letter**

A representation letter is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. The letter should confirm that management fulfilled its responsibilities, including the preparation and fair presentation of the financial statements; the design, implementation, and maintenance of internal control; and all transactions have been recorded and are reflected in the financial statements. (AU-C 580.07, .10, .11)

*See also: Working Papers*

### **Required Supplementary Information (RSI)**

Required supplementary information is information that a designated accounting standards setter requires to accompany an entity's basic financial statements. RSI is not a part of the basic financial statements; however, a designated accounting standards setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Authoritative guidelines for the methods of measurement and presentation of the information have been established. (AU-C 730.04)

Auditors perform certain procedures on RSI; however, an opinion on RSI is not expressed. Thus, the presentation of RSI does not influence the auditor's opinion. (AU-C 730.A2)

### **Revenue**

Revenue is income received by an entity. It represent a financial resource that is recognized when it is measurable and available to finance the expenditures of the fiscal period. (GASB Cod. Sec. 1600.106)

### **Review Engagement**

A review of financial statements is performed when some level of assurance is needed but an audit is not required. The State Board of Accounts performs reviews in accordance with Statements on Standards for Accounting and Review Services (SSARS) promulgated by the AICPA Accounting and Review Services Committee. (AR-C 90.03-05)

### **Risk**

Risk, specifically audit risk, is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risk of material misstatement (inherent risk and control risk) and detection risk. (AU-C 200.14) Audit risk can be reduced to an acceptably low level by collecting sufficient, appropriate audit evidence, which allows the auditor to draw a reasonable conclusion and form the opinion. (AU-C 200.A40) Additionally, collecting higher quality evidence, using the work of specialists, and obtaining corroborating information from an independent source can all contribute to the reduction of audit risk. (AU-C 500.05, .A4, & .A8)

*See also*

- *Appropriateness (of audit evidence)*
- *Control Risk*
- *Detection Risk*
- *Finding*
- *Fraud*
- *Inherent Risk*
- *Risk of Material Misstatement*
- *Sufficiency (of audit evidence)*

### **Risk Assessment**

Risk assessment is the identification and analysis of the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. To assess risk, management considers the types of risks that impact the entity. Management should consider all significant interactions within an entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors. These factors could include the complex nature of an entity's programs; organizational structure; use of new technology; new laws, regulations, and professional standards; or economic instability. (Standards for Internal Control in the Federal Government 7.02-7.04)

*See also: Components of Internal Control*

### **Risk of Material Misstatement**

The risk of material misstatement refers to the risk that the financial statements are materially misstated prior to the audit. This risk is composed of two components: inherent risk, which is a risk prior to the application of controls; and control risk, which refers to internal controls that do not prevent, or detect and correct on a timely basis a misstatement(s) that could occur and be material either individually or in the aggregate when combined with other misstatements. (AU-C 200.14) The risk of material misstatement is used to determine the nature, timing and extent of audit procedures. (AU-C 200.A40)

*See also:*

- *Control Risk*
- *Detection Risk*
- *Inherent Risk*
- *Internal Control*
- *Misstatement/Material Misstatement*

- *Risk*

### **Risk of Material Noncompliance**

The risk that material noncompliance exists prior to the audit. This consists of two components, described as follows:

*Inherent risk of noncompliance* - The susceptibility of a compliance requirement to noncompliance that could be material, either individually or when aggregated with other instances of noncompliance, before consideration of any related controls over compliance.

*Control risk of noncompliance* - The risk that noncompliance with a compliance requirement that could occur and that could be material, either individually or when aggregated with other instances of noncompliance, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control over compliance. (AU-C 935.11)



### **Sampling**

Sampling is the selection and evaluation of less than 100 percent of the population of audit relevance such that the auditor expects the items selected (the sample) to be representative of the population and thus, likely to provide reasonable assurance for conclusions about the entire population (AU-C 530.05)

There are two types of sampling: statistical sampling and nonstatistical sampling. Statistical sampling uses random selection to choose the sample items, then applies statistical techniques to evaluate the sample results. Nonstatistical sampling does not use statistical evaluation. (AU-C 530.05) The decision whether to use a statistical or nonstatistical sampling approach is a matter for the auditor's professional judgment. (AU-C 530.A14)

*See also:*

- *Population*
- *Professional Judgment*
- *Sampling Risk*

### **Sampling Risk**

The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. (AU-C 530.05) The level of sampling risk that the auditor is willing to accept affects the sample size required.

### **Schedule of Expenditures of Federal Awards (SEFA)**

The Schedule of Expenditures of Federal Awards (SEFA) is a federally-mandated, auditee prepared schedule per 2 CFR 200.510. At a minimum, the schedule must include:

- A list individual federal programs by federal agency
  - For a cluster of programs, the cluster name, list of individual Federal programs within the cluster, and the applicable Federal agency name
    - For the R&D cluster, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision with the Federal agency
- For federal awards received as a subrecipient, a disclosure of the name of the pass-through entity and identifying number assigned by the pass-through entity
- The total federal awards expended for each individual federal program, as well as the totals for the clusters of programs
- Assistance Listing Number (ALN) or other identifying number when the ALN information is not available
- The total amount provided to subrecipients from each Federal program
- Notes that describe
  - The significant accounting policies used in preparing the SEFA
  - Whether or not the auditee elected to use the 10% de minimis cost rate as covered in 2 CFR 200.414 Indirect (F&A)
  - The balances outstanding at the end of the audit period for loan or loan guarantee programs included in the SEFA

The auditor does not express an opinion on the fair presentation of the SEFA in its own right, but rather only on its fair presentation in relation to the basic financial statements taken as a whole.

*See also:*

- *Assistance Listing Number (ALN)*
- *In-relation-to Opinion*
- *Pass-through Entity*
- *Single Audit*
- *Subrecipient*

### **Schedule of Findings and Questioned Costs**

A schedule of findings and questioned costs which must include the following three components in accordance with 2 CFR 200.515(d) when a Single Audit is performed:

(1) A summary of the auditor's results, which must include:

- (i) The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
- (ii) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
- (iii) A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;

- (iv) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit;
- (v) The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
- (vi) A statement as to whether the audit disclosed any audit findings that the auditor is required to report under §200.516 Audit findings paragraph (a);
- (vii) An identification of major programs by listing each individual major program; however in the case of a cluster of programs only the cluster name as shown on the Schedule of Expenditures of Federal Awards is required;
- (viii) The dollar threshold used to distinguish between Type A and Type B programs, as described in § 200.518 Major program determination paragraph (b)(1), or (b)(3) when a recalculation of the Type A threshold is required for large loan or loan guarantees; and
- (ix) A statement as to whether the auditee qualified as a low-risk auditee under §200.520 Criteria for a low-risk auditee.

(2) Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

(3) Findings and questioned costs for Federal awards which must include audit findings as defined in §200.516 Audit findings, paragraph (a). (2 CFR 200.515)

*See also:*

- *Abuse*
- *Compliance Requirements in a Single Audit*
- *Federal Award*
- *Financial Statements*
- *Fraud*
- *Internal Control*
- *Major Federal Program*
- *Material Noncompliance*
- *Material Weakness*
- *Questioned Costs*
- *Significant Deficiency*
- *Single Audit*
- *Types of Financial Statement Audit Report Opinions*

## **Scope**

Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included. (GAGAS 8.10)



## **Scope Limitation**

A scope limitation is the auditor's inability to obtain sufficient appropriate audit evidence. Examples of scope limitations include management restricting access to records, government officials, or other individuals needed to conduct the audit, or destruction of records. (GAGAS 2.22.b) Auditors issue modified opinions for a scope limitation; either a qualified opinion or disclaimer of opinion. (AU-C 705. 08 and .10)

*See also:*

- *Types of Financial Statement Audit Report Opinions*
- *Types of Single Audit compliance Report Opinions*

## **Segregation of Duties**

The purpose of segregation of duties is to divide key responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event. (Standards for Internal Control in the federal Government 10.03)

*See also: Fraud*

## **Service Organization**

A service organization is an organization or segment of an organization that provides services to user entities that are relevant to those user entities' internal control over financial reporting. (AU-C 402.08)

*See also:*

- *Type 1 Report*
- *Type 2 Report*

## **Significance**

Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. (GAGAS, 8.15)

The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. (GAGAS 8.15)

*See also: Material/Materiality*

## **Significant Deficiency**

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. (AU-C 265.07)

*See also:*

- *Internal Control Deficiency*
- *Material Weakness*
- *Those Charged with Governance*

### **Single Audit**

A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with § 200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section. (2 CFR 200.501(b))

- When an auditee expends Federal awards under only one Federal program, excluding R&D, and the Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee, they may elect to have a program-specific audit conducted in accordance with §200.507.

The audit must be conducted in accordance with generally accepted government auditing standards (GAGAS). The audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period, provided that each such audit must encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which must be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards must be for the same audit period.

The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles. The auditor must also determine whether the schedule of expenditures of Federal awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.

In addition to the requirements of GAGAS, the auditor must perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs. Testing of internal control as planned must be performed. If internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing internal control testing is not required but the auditor must report either a significant deficiency or material weakness in accordance with §200.516 Audit findings, assess the related control risk at maximum, and consider whether additional compliance tests are required.

In addition to the requirements of GAGAS, the auditor must determine whether the auditee has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs. (2 CFR 200.514)

The auditor must follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with §200.511 Audit findings follow-up paragraph (b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

As required in § 200.512(b)(3), the auditor must complete, and sign specified sections of the data collection form (2 CFR 200.514). The auditor's report must include a schedule of findings and questioned costs that must report a summary of the auditor's results, findings related to the financial statements, and findings and questioned costs for Federal awards. (2 CFR 200.515)

*See also:*

- *Compliance Supplement*
- *Federal Award*
- *Generally Accepted Government Auditing Standards (GAGAS)*
- *In-Relation-To Opinion*
- *Internal Control*
- *Questioned Costs*
- *Schedule of Findings and Questioned Costs*
- *Types of Single Audit Compliance Report Opinions*

### **Software Application**

Application software is a type of computer program that performs a specific personal, educational, and business function. Each program is designed to assist the user with a particular process, which may be related to productivity, creativity, and/or communication. (<https://www.quickbase.com/articles/application-software-basics>)

### **Special Revenue Fund**

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special revenue funds should also not be used to account for resources held in trust for individuals, private organizations, or other governments. (GASB 54, paragraph 30)

*See also: Fund/Fund Accounting*

### **Special Purpose Framework**

Special purpose frameworks are financial reporting frameworks other than GAAP. These frameworks include the following bases: cash, tax, regulatory, contractual, and other. These bases of accounting are commonly referred to as other comprehensive bases of accounting. (AU-C 800.07)

*See also:*

- *Cash Basis*
- *Regulatory Basis*
- *Other Comprehensive Basis of Accounting (OCBOA)*

### **Special Test and Provisions Requirements**

Special test and provision requirements are unique to each federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program. They must be complied with by the nonfederal entity receiving the award (Federal OMB Compliance Supplement, 2023, 3-N-1).

*See also: Compliance Requirements of a Single Audit*

### **Standard Chart of Accounts**

Standard charts of accounts have been developed by the State Board of Accounts for specific government entities. A full chart of accounts contains a funds table, table of receipt accounts and table of disbursement accounts as a start to standardizing recordkeeping and reporting. These standard charts of accounts can be found in the Uniform Compliance Guidelines developed for specified government unit types (county auditors, cities and towns, schools, etc.) on the State Board of Accounts website. (<https://www.in.gov/sboa>)

*See also: State Board of Accounts*

### **Standards for Internal Control in the Federal Government (Green Book)**

The U.S. Government Accountability Office Green Book establishes standards for an effective internal control system for federal agencies. Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. ([www.gao.gov/greenbook/overview](http://www.gao.gov/greenbook/overview))

*See also: Internal Control*

### **State Board of Accounts**

The State Board of Accounts was established by the Indiana legislature in 1909. The mission of the State Board of Accounts is to provide the citizens of Indiana with complete confidence in the integrity and financial accountability of state and local government. Responsibilities of this agency include developing uniform compliance guidelines and auditing the state, public universities, counties, municipalities, and school districts.

### **Statement of Activities**

The statement of activities is one of the basic financial statements. It presents the net (expense) revenue of its individual functions with the objective to report the relative financial burden of each of the government's functions on its taxpayers. It should present governmental activities at least at the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balance, at a minimum by function. (GASB 34, paragraphs 38-39 as amended by GASB 37 and 63)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Enterprise Fund*
- *Governmental Funds*

### **Statement of Cash Flows**

The statement of cash flows is one of the basic financial statements for proprietary funds. This statement details the cash receipts and cash payments made by the entity during the reporting period. Cash flows are presented as cash flows received from and used for operating activities, noncapital financing activities, capital financing activities, and investing activities. It should be prepared using the direct method including a reconciliation of operating cash flows to operating income based on GASB 9 as amended. (GASB 34, paragraph 105)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Proprietary Fund*

### **Statement of Changes in Fiduciary Net Position**

The statement of changes in fiduciary net position is one of the basic financial statements for fiduciary funds. It presents information about significant year-to-year changes in net position. (GASB 84, paragraphs 23-25)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Fiduciary Funds*

### **Statement of Fiduciary Net Position**

The statement of fiduciary net position is one of the basic financial statements. The statement should be presented according to the standard net position format: [assets + deferred outflows of resources – liabilities] + [deferred inflows of resources] = net position. (GASB 84, paragraphs 20-22)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Fiduciary Funds*

### **Statement of Revenues, Expenditures, and Changes in Fund Balances**

The statement of revenues, expenditures, and changes in fund balances reports information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in the aggregate. A total column should be presented combining all funds presented. (GASBS 34, paragraph 86)

*See also:*

- *Annual Comprehensive Financial Report (ACFR)*

- *Governmental Funds*
- *Major Funds*

### **Subaward**

An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (2 CFR 200.1)

### **Subrecipient**

Means an entity, usually but not limited to non-Federal entities, that receives a subaward from a pass-through entity to carry out part of a federal award but does not include an individual that is a beneficiary of such award. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. (2 CFR 200.1)

### **Subsequent Events**

Subsequent events are events or transactions that occur after the date of the financial statements but before their issuance. Some of those transactions and events require adjustments to the financial statements (recognized events), while others may require disclosure in the notes to the financial statements (nonrecognized events).

Recognized events consist of conditions that existed at the date of the financial statements that provide additional evidence as to the estimates inherent in the process of preparing financial statements. For example, a customer with a history of financial trouble filed bankruptcy after the fiscal year end but prior to the issuance of the financial statements. In this situation, the customer's financial difficulty would have been considered when preparing the financial statements; however, the official bankruptcy provides additional evidence that requires re-evaluating the assumptions/estimates used in preparation of the financial statements.

Nonrecognized events consist of events that did not exist at the date of the financial statements, but arose subsequent to that date. For example, a major casualty to the entity such as a fire or flood occurring after the fiscal year end should not result in adjustment to the financial statements but may be of such a nature that disclosure in the Notes to the Financial Statements is essential to the readers of the financial statements. (GASBS 56, paragraphs 8-11)

*See also: Misstatement/Material Misstatement*

### **Sufficiency of Audit Evidence**

Sufficiency is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risk of material misstatement and also by the quality of such audit evidence. (AU-C 500.06)

*See also: Evidence*

## Summary Schedule of Prior Audit Findings

The auditee is responsible for follow-up on all audit findings as the result of a single audit pursuant to 2 CFR 200.511. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings (schedule) for all findings included in the prior audit's schedule of findings and questioned costs. The schedule must include the reference numbers the auditor assigns to audit findings under §200.516 Audit findings, paragraph (c) and, since it may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. It must also include findings relating to the financial statements which are required to be reported in accordance with GAGAS.

The schedule must report the status of all prior audit findings except audit findings listed as corrected in accordance with paragraph (b)(1) of this section, or no longer valid or not warranting further action in accordance with paragraph (b)(3) of this section. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken. 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 must provide an explanation.

When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must 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:

- (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal Audit Clearinghouse (FAC);
- (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
- (iii) A management decision was not issued.

*See also*

- *Federal Audit Clearinghouse (FAC)*
- *Finding*
- *Generally Accepted Government Auditing Standards (GAGAS)*
- *Single Audit*

## Supplementary Information

Supplementary Information is information that is presented outside of the basic financial statements that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. This excludes the required supplementary information (AU-C 725.04). The purpose of supplementary information is to enhance the financial statement users' understanding of the entity's financial position.

*See also*

- *Certificate of Achievement for Excellence in Financial Reporting Program*
- *Annual Comprehensive Financial Report (ACFR)*
- *Schedule of Expenditures of Federal Awards (SEFA)*

### **Suspension and Debarment**

Suspension is an action taken by a suspending official under subpart G of this part that immediately prohibits a person from participating in covered transactions and transactions covered under the Federal Acquisition Regulation (48 CFR chapter 1) for a temporary period, pending completion of an agency investigation and any judicial or administrative proceedings that may ensue. A person so excluded is suspended. (2 CFR 180.1015)

Debarment is an action taken by a debarring official under Subpart H of this part to exclude a person from participating in covered transactions and transactions covered under the Federal Acquisition Regulation. (48 CFR chapter 1) A person so excluded is debarred. (2 CFR 180.925)

*See also: Compliance Requirements in a Single Audit*



### **Tax Abatement**

A tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement. (GASB 77, paragraph 4)

A common tax abatement is a property tax abatement. It is usually granted to a business to incentivize it to operate within a city. In this example, the city would forgo the property taxes to which it is entitled in exchange for the business to operate in the city and contribute to the city's economic development.

### **Those Charged with Governance**

The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel; for example, executive members of a governance or an owner-manager (AU-C 200.14).

### **Transparency**



Transparency is government's obligation to share information with citizens that is needed to make informed decisions and hold officials accountable for the conduct of the people's business. (<https://www.alec.org/model-policy/transparency-and-government-accountability-act/>)

To provide transparency to Indiana residents, the State offers the Indiana Transparency Portal and Gateway. The Indiana Transparency Portal is an online solution designed to bring better visibility, openness, and accountability to Indiana State Government. It offers information relating to state contracts, state agency budgets, and agency performance measures. (<https://www.in.gov/core/transparency.html>)

Additionally, the Indiana Gateway for Governmental Units collects and provides access to information regarding how taxes and other public dollars are budgeted and spent by Indiana's local units of government. (<https://gateway.ifionline.org>)

See also:

- *Accountability*
- *Indiana Gateway for Governmental Units*

### **Types of Financial Statement Audit Report Opinions**

When an auditor issues an audit report, the auditor expresses an opinion as to whether or not the financial statements are presented fairly, in all material respects, with the applicable financial reporting framework. An unmodified opinion indicates that the financial statements are presented fairly, in all material respects, with the applicable financial reporting framework. (AU-C 700.11, 12)

If an auditor expresses a modified opinion, it will be expressed as one of the following:

- *Qualified* – Expressed either when the auditor has collected sufficient appropriate evidence to determine misstatements are material but not pervasive; or sufficient appropriate evidence was not obtained on which to base an opinion but the auditor concludes that possible effects of undetected misstatements, if any, could be material, but not pervasive.
- *Disclaimer* – expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any could be both material and pervasive
- *Adverse* – expressed after the auditor has collected sufficient, appropriate evidence, and determines that the misstatements in the financial statement are both material and pervasive. (AU-C 705.06, .08-10)

See also

- *Material/Materiality*
- *Misstatement/Material Misstatement*
- *Adverse Opinion*
- *Disclaimer*

- *Qualified Opinion*
- *Unmodified/Unqualified Opinion*

### **Types of Single Audit Compliance Report Opinions**

When an auditor performs a single audit, the auditor expresses an opinion as to whether or not the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program (2 CFR 200.514(d)). An unmodified opinion indicates that the auditee complied, in all material respects, with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program. (AU-C 705.06, .08-10)

If an auditor expresses a modified opinion, it will be expressed as one of the following:

- *Qualified* – Expressed either when the auditor has collected sufficient appropriate audit evidence to determine instances of noncompliance identified are material to the major program(s) but not pervasive; or the auditor was unable to obtain sufficient appropriate audit evidence due to a restriction(s) on the audit scope whether imposed by the auditee or by circumstances. The auditor’s decision to qualify or disclaim an opinion due to a scope limitation depends on their assessment of the importance of the omitted procedure(s) on their ability to form an opinion.
- *Disclaimer* – expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion but concludes that the possible noncompliance, if any, could be both material and pervasive. The auditor’s decision to qualify or disclaim an opinion due to a scope limitation depends on their assessment of the importance of the omitted procedure(s) on their ability to form an opinion.
- *Adverse* – expressed after the auditor has collected sufficient, appropriate evidence, and determines that the noncompliance is both material and pervasive.

*See also: Material/Materiality*

### **Type 1 Report**

A Type 1 report is officially entitled *management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls*. This report comprises management's description of the service organization's system and a written assertion by management of the service organization about whether, based on the criteria:

- Management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of a specified date
- The controls related to the control objectives stated in management's description of the service organization's system were suitably designed to achieve those control objectives as of the specified date

The service auditor will also express an opinion on the matters disclosed in the written assertion. (AU-C 402.08, AT-C 320.08)

*See also: Type 2 Report*

## **Type 2 Report**

A Type 2 report is officially entitled *Management's description of a service organization's system and a service auditor's report on the description and on the suitability of the design and operating effectiveness of controls*. This report comprises management's description of the service organization's system and a written assertion by management of the service organization about whether, based on the criteria:

- Management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period
- The controls related to the control objectives stated in management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives
- The controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives c.

The service auditor's report will also express an opinion on the matters included in the written assertion and include a description of the tests of controls and the results thereof. The difference between a Type 1 Report and a Type 2 Report is the Type 1 Report only looks at the design of internal controls, while Type 2 Reports evaluates the effectiveness of internal control. (AU-C 402.08, AT-C 320.08)

*See also: Type 1 Report*



## **Uniform Compliance Guidelines**

The State Board of Accounts has established uniform compliance guidelines pursuant to IC 5-11-1-24 for various governmental units. These are also referred to as “manuals”. They contain accounting requirements, forms, and the uniform compliance guidelines. They are updated periodically and available on our website. ([www.in.gov/sboa](http://www.in.gov/sboa))

## **Uniform Guidance**

Uniform Guidance is the authoritative set of rules and requirements for federal awards. Uniform Guidance is established by the Office of Management and Budget (OMB) as a government-wide framework for grants management. Among other things, Uniform Guidance accomplishes the following:

- Removes previous guidance that is conflicting and establishes standard language
- Directs the focus of audits on areas that have been identified as at risk for waste, fraud and abuse
- Lays the groundwork for Federal agencies to standardize the processing of data
- Clarifies and updates cost reporting guidelines for award recipients (<https://www.grants.gov/learn-grants/grant-policies/omb-uniform-guidance->

[2014.html#:~:text=The%20Uniform%20Guidance%20%E2%80%93%20a%20%22government,guide%20from%20earlier%20OMB%20circulars.\\*\)](#)

*See also:*

- *Compliance Requirements in a Single Audit*
- *Compliance Supplement*
- *Office of Management and Budget (OMB)*
- *Single Audit*

### **Unmodified Opinion**

The opinion expressed by the auditor when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (AU-C 700.10)

*See also*

- *Types of Financial Statement Audit Report Opinions*
- *Types of Single Audit Compliance Report Opinions*

### **Unrestricted Net Position**

The unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. (GASB 63, paragraph 11)

*See also: Comprehensive Annual Financial Report*

### **User Permissions**

User permission is the authorization given to users that enables them to access specific resources on the network, such as data files, applications, printers and scanners. User permissions also designate the type of access; for example, can data only be viewed, such as read only, or can they be updated, such as read/write.

[https://www.pcmag.com/encyclopedia/term/userpermissions#:~:text=The%20authorization%20given%20to%20users,updated%20\(read%2Fwrite\).](https://www.pcmag.com/encyclopedia/term/userpermissions#:~:text=The%20authorization%20given%20to%20users,updated%20(read%2Fwrite).)



### **Waste**

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight (GAGAS 7.23).

## **Working Papers**

The working papers document the work performed by the auditor during the engagement. Procedures performed, relevant audit evidence, and conclusions reached by the auditor should all be included. The working papers provide evidence that the audit was planned and performed in accordance with the relevant auditing standards. (AU-C 230.02 and AU-C 230.06)

*See also: Evidence*



## **Yellow Book**

The Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, provides a framework for conducting high-quality audits with competence, integrity, objectivity, and independence. The Yellow Book is used by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. It outlines the requirements for audit reports, professional qualifications for auditors, and audit organizations quality control. Auditors of federal, state, and local government programs use these standards to perform their audits and produce their reports (Yellow Book, page 1) <https://www.gao.gov/yellowbook/overview>.

*See also:*

- *Generally Accepted Government Auditing Standards (GAGAS)*
- *Government Accountability Office (GAO)*

## Acronyms

### Certifications

CFE.....	Certified Fraud Examiner
CGFM.....	Certified Government Financial Manager
CISA.....	Certified Information Systems Auditor
CPA.....	Certified Public Accountant

### Organizations

AICPA.....	American Institute of Certified Public Accounts
COSO.....	Committee of Sponsoring Organizations of the Treadway Commission
GFOA.....	Government Finance Officers Association
IIA.....	Institute of Internal Auditors
IMA.....	Institute of Management Accountants
ISACA.....	Information Systems Audit and Control Association

### Standards Setting Organizations

ASB.....	Accounting Standards Board
FASB.....	Financial Accounting Standards Board
GAO.....	U.S Government Accountability Office
GASB.....	Government Accounting Standards Board
OMB.....	U.S. Office of Management and Budget

### Auditing and Accounting Standards

GAAP.....	Generally Accepted Accounting Principals
GAAS.....	Generally Accepted Auditing Standards
GAGAS.....	Generally Accepted Government Auditing Standards

### Other

AFR.....	Annual Financial Report
ACFR.....	Annual Comprehensive Financial Report
CDFA.....	Catalog of Federal Domestic Assistance
SEFA.....	Schedule of Expenditures of Federal Awards