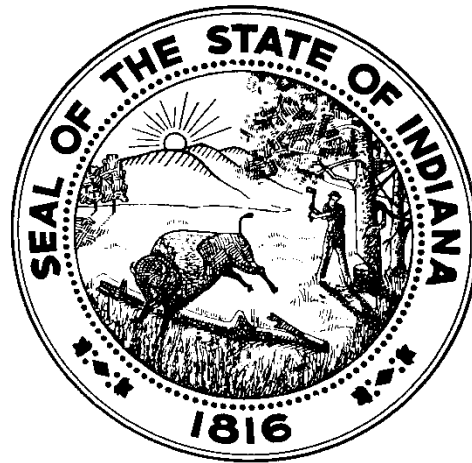


**UNIFORM COMPLIANCE
GUIDELINES FOR EXAMINATION
OF ENTITIES RECEIVING FINANCIAL
ASSISTANCE FROM GOVERNMENTAL SOURCES**



INDIANA STATE BOARD OF ACCOUNTS
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TABLE OF CONTENTS


- A. Entities Receiving Financial Assistance
- B. Reporting Requirements and Audit Thresholds
- C. Overview of the Audit Process
- D. Audit Coordination and Administration
- E. Auditor Evaluation and Selection
- F. Contract Approval Process
- G. Auditor Responsibilities
- H. Guidelines for Audits
- I. Audit Review and Acceptance

On September 1, 1986, the Indiana State Board of Accounts became responsible for establishing Uniform Compliance Guidelines for the examination of entities defined under IC 5-11-1-16(e). Shortly before the end of that year, our first issue entitled, *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources* (Guidelines) was released. The Guidelines have been reissued several times over the years. Those of you familiar with previous issues realize the central role played by the Indiana State Board of Accounts in the audit of public funds disbursed by entities. Through the annual reporting process and our involvement in approving audit contracts with independent public accountants (IPAs), we have attempted to ensure entities subject to state audit requirements, have met these as efficiently and inexpensively as possible.

Reports on internal control and compliance in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States (as revised) are no longer required of entities that do not receive federal funds or whose federal funds expended falls below the federal Uniform Guidance threshold in effect for the audit period. In these instances, an audit performed in accordance with generally accepted auditing standards (GAAS) will satisfy the State audit requirement under Indiana Code (IC) 5-11-1-9. Funding agencies should be contacted to ensure that this type of audit also satisfies their requirements. All reports are required to contain a schedule of all assistance from appropriations, public funds, taxes, and other sources of public expense as detailed on page H-1. In addition, a copy of any separate communication to the entity's governance or management needs to be submitted along with the report to the Indiana State Board of Accounts.

It has, and will continue to be our policy, that one and only one appropriate audit need ever be performed of any entity receiving government financial assistance. It is, therefore, imperative that entities, their funding agencies, and their independent auditors exercise diligence in determining applicable audit requirements, prior to commencing the audit process. Through adherence to our Guidelines, and with the cooperation of all parties involved, one audit can and will satisfy the needs of everyone.

We would like to thank the entities, funding agencies, and IPAs for the cooperation and assistance they have provided. We hope these Guidelines will assist you in successfully addressing your responsibilities.


Paul D. Joyce, CPA
State Examiner

ENTITIES RECEIVING FINANCIAL ASSISTANCE

Entities are defined as providers of goods, services, or other benefits maintained in whole or in part at public expense, or supported in whole or in part by appropriations, public funds, or taxation per IC 5-11-1-16(e). The definition does not include agencies of the state, Indiana local government, or quasi-government agencies, but does include for-profit and not-for-profit corporations, unincorporated associations, organizations, and individuals. For the sake of brevity, the term financial assistance will be used throughout this Guideline when referring to appropriations, public funds, taxes and other sources of public expense used in IC 5-11-1 et. seq.

Entities are nongovernmental organizations, many of whom conduct their business as not-for-profit corporations. By contract or other form of agreement entities provide a service or benefit to the public on behalf of government. Since 1986, more than 2000 entities in more than 30 distinct categories have been identified that are subject to the audit and reporting requirements of IC 5-11-1 et. seq.

As distinctly different as many of these organizations are from each other, they share similarities in their relationship with government. All entities receive financial assistance from the State of Indiana or Indiana local government. The assistance received is in the form of grants, subsidies, or contributions, and is evidenced by an outflow of funds from a governmental agency.

In addition to receiving financial assistance, entities share a commonality of purpose with their government providers. The relationship between the entity and provider are seldom "arms length" and many times appear to be more like a partnership or joint venture, rather than an arrangement between independent organizations participating as vendor/vendees. The relationship may or may not be evidenced by a written agreement. Usually the agreement, whether in writing or not, specifies a lump-sum, or flat amount of assistance to be provided in return for services that cannot be easily measured or defined. In most cases, each party to the agreement is heavily dependent on the other for the success and continuation of the program or objective.

Organizations participating in nonfederal "purchase of service" arrangements (only) are not entities and, therefore, not subject to the audit and reporting requirements of IC 5-11-1. Organizations receiving federal funding through state or local government may or may not be recipients of "financial assistance." This determination can only be made by the respective federal agency provider. Recipients of federal pass-through dollars, defined as financial assistance by the federal provider, are entities subject to IC 5-11-1 et. seq. Due to the complexity of this issue, we caution all organizations to confirm their status regarding IC 5-11-1 with government providers, prior to arranging for any type of independent audit.

Fee for Service v. Financial Assistance

The questions contained in this section provide a consistent framework to evaluate whether funds provided to an outside organization are based on a fee-for-service (contractor) arrangement or a financial assistance (subrecipient) arrangement. This determination is necessary to apply the Indiana State Board of Accounts audit requirement in IC 5-11-1-9(a), as follows: "The state examiner, personally or through the deputy examiners, field examiners, or private examiners, shall examine all accounts and all financial affairs of every public office and officer, state office, state institution, and entity."

The questions stem from Indiana case law and the federal Uniform Guidance on the determination of a contractor and subrecipient (2 CFR 200.330). Answers to the questions will be used as a tool to assess the nature of the organization for purposes of IC 5-11-1-16; however, the substance of the relationship is more important than the form of the agreement. Not all characteristics will be present for each contract or organization. Therefore, we will review each contract or organization individually. It may be necessary for us to obtain additional information or documentation during this review and copies of the contracts and other information may be required to be submitted and will be reviewed to determine the proper categorization of funding. It will be the determination of the Indiana State Board of Accounts and not the entity, as to whether the funding arrangement meets the definition of fee for service.

ENTITIES RECEIVING FINANCIAL ASSISTANCE

(Continued)

The following definitions apply to this section of the manual:

- **Organization.** A provider of goods, services, or other benefits to a governmental unit.
- **Contractor.** An organization that receives a contract for the purpose of providing goods and services for the awarding governmental unit's own use. The contract creates a procurement relationship with the contractor. [based on 2 CFR 200.22 and 200.330(b)]
- **Subrecipient.** An organization that receives a contract for the purpose of carrying out a portion of a governmental unit's grant requirement, statutory responsibility, or plan. [based on 2 CFR 200.330(a)]
- **Entity.** "As used in this article, 'entity' means any provider of goods, services, or other benefits that is: (1) maintained in whole or in part at public expense; or (2) supported in whole or in part by appropriations or public funds or by taxation. The term does not include the state or a municipality (as defined in this section)." [IC 5-11-1-16(e)]

Regardless of the final determination of a contractor or subrecipient relationship, the agreement will be included in the examination procedures applied at the governmental unit level. The determination that a subrecipient relationship exists may require the "entity" to be examined separately pursuant to IC 5-11-1-9.

Questions Based on Indiana case law:

Affirmative responses in this section may indicate a contractor relationship:

- Does a written agreement between the parties exist?
- Does the document refer to the amounts paid as "fees for services"?
- Is the amount paid negotiated between the parties for services performed?
- Does the document contain an objective measure of performance?
- Is there a direct relationship between the amount paid and the amount of services received?
- Do federal tax forms describe the compensation as fee for service rather than as contributions, indirect support, etc.?
- Does the amount paid under the document fluctuate from payment to payment?
- Is an itemized bill submitted to the governmental unit for services performed?

Other factors from Indiana case law to be considered by the Indiana State Board of Accounts to determine whether the arrangement is a fee for service contract or a grant or subsidy situation include:

ENTITIES RECEIVING FINANCIAL ASSISTANCE

(Continued)

- Express language of the document creating the arrangement.
- How references to payments are memorialized in Board minutes.
- Whether itemized claims were submitted by the non-profit organization pursuant to IC 36-10-9-9 if applicable.
- Whether the document requires a fixed percentage of money paid to non-profit organization regardless of non-profit organization's performance.
- Payment amounts were not dependent on non-profit organization's performance, but rather, payments depended on the amount of annual tax collected by the government entity having the arrangement with the organization.

Questions Derived from Uniform Guidance (2 CFR 200.330):

Affirmative responses in this section may indicate a contractor relationship:

- 200.330(b)(4) - Does the organization provide goods or services for the governmental unit's own use?
- 200.330(b)(4) - Does the organization provide services to clients or participants as designated by the governmental unit (or at the direction of the governmental unit) without making programmatic decisions?
- 200.330(b)(5) - Does the governmental unit develop the scope of work and terms and conditions of the agreement to meet the governmental unit's needs?

Note regarding answers related to 2 CFR 200.330(b)(5). If the scope of the contract is per the governmental unit's terms and not general guidance from a grant program, statute, or plan, then the contract may be indicative of a contractor.

- 200.330(b)(1) - Is the organization's normal business to provide the goods or services being purchased in the agreement?
- 200.330(b)(2) - Does the organization provide similar goods or services to other organizations?

Affirmative responses in this section may indicate a subrecipient relationship.

- 200.330(a)(1) - Does the organization determine who is eligible to participate in a government grant, program, or plan?
- 200.330(a)(3) - Does the organization have the ability to make decisions about how services will be provided to participants in a government grant, program, or plan (e.g., delivery of service, operations, or types of assistance provided within the terms of the agreement)?

ENTITIES RECEIVING FINANCIAL ASSISTANCE

(Continued)

- 200.330(a)(2) - Are the scope of work and terms and conditions of the contract the same for the organization as they are for the governmental unit that received the funds (e.g., requirements per a grant award, statute, or governmental unit plan)?
- 200.330(a)(2) - Is the organization carrying out completion of the goal of the grant, statute, or plan as stated in the grant, statute, or plan?

Notes for answers related to 2 CFR 200.330(a)(2). The following type of arrangement is an example of what may tend to show a subrecipient relationship: if the organization is providing a service that carries out a goal within the scope of the grant, statute, or plan. For example, if the scope of the agreement is per the grant, statute, or plan terms without any specific direction from the governmental unit; the organization makes the decisions on how best to accomplish the goal rather than the governmental unit; or the organization may also provide programmatic or progress reports to ensure compliance with grant, statute, or plan requirements.

Alternatively, if the organization is providing a service for the governmental unit to meet the goal of a grant, statute, or plan, it may indicate a contractor.

Sources:

State Board of Accounts v. Indiana University Foundation, 647 N.E. 2d 342 (Ind. Ct. App. 1995)
Indiana Convention and Visitors Association, Inc. v. Indianapolis Newspaper, Inc., 577 N.E. 2d 208 (Ind. 1991)
Perry County Economic Development Corporation v. Kempf, 712 N.E. 2d 1020 (Ind. Ct. App. 1999)
Indiana Code 5-11-1
Uniform Guidance 2 CFR 200.330

Final Determination - Contractor or Subrecipient Relationship

It will be the determination of the Indiana State Board of Accounts and not the entity as to whether the funding arrangement meets the definition of fees for services. A copy of the document - grant or contract, and invoices and bills, correspondence between the parties, Board or Trustee meeting minutes, and other information may be required to be submitted and will be reviewed to determine the proper categorization of funding.

Government Providers of Financial Assistance

Government providers of financial assistance to entities are required to include wording in their contracts, agreements, or other funding documents that the entity must allow for audits by our department or on behalf of our department. Such documents must also require compliance with the annual reporting requirement (Form E-1) in accordance with IC 5-11-1-4 discussed elsewhere in these Guidelines.

ENTITIES RECEIVING FINANCIAL ASSISTANCE

(Continued)

Government providers of financial assistance should also assist recipients and subrecipients, when requested, in determining their audit requirements. It is also their responsibility to inform entities of any federal funds being passed through to them so the entities can, in turn, report these funds accurately in the annual financial report due in accordance with IC 5-11-1-4 and other financial documents.

By statutory definition, funding received from state and local governments outside of Indiana or from other nongovernmental entities are not considered financial assistance for purposes of defining an entity and the resulting reporting and audit requirements. Please confirm with the entity that provided you funding their status as a governmental unit or nongovernmental entity if you are uncertain as the ramifications can be significant.

REPORTING REQUIREMENTS AND AUDIT THRESHOLDS

Reporting Requirements

Entities are required pursuant to IC 5-11-1-4 to file an entity annual report with the Indiana State Board of Accounts annually. The Entity Annual Report (E-1) is due within 60 days after the entity's year end and requests unaudited (cash or accrual basis) information regarding the source and use of financial assistance provided by government funding agencies and the entity's total disbursements regardless of source.

The Indiana State Board of Accounts uses an electronic submission process for the filing of the E-1 through the Indiana Gateway for Government Units (Gateway) financial reporting system. Not-for-profit and for-profit entities join local units of governments in submitting their statutorily required annual reporting to the Indiana State Board of Accounts through the Gateway system. The Gateway submission will be the only means of submitting your E-1 beginning with 2015 reporting. An E-1 submitted by any other means or in any other format will not be accepted.

Auditing Requirements and Thresholds

IC 5-11-1-9 requires an organization-wide audit of an entity when the financial assistance disbursed by that organization is equal to or greater than 50 percent of their total disbursements for the period. The scope of the audit is limited to the use of the financial assistance received when the financial assistance disbursed is less than 50 percent.

Entities whose financial assistance disbursements are less than 50 percent of their total; and entities incorporated as not-for-profit corporations whose financial assistance disbursements are equal to or greater than 50 percent, but less than \$750,000, qualify for a tentative waiver of these audit requirements. The desire for a tentative waiver is assumed by the Indiana State Board of Accounts, and will be granted based on the statutory thresholds. The State Examiner retains the ability to rescind the waiver and conduct an audit if deemed appropriate. A credible complaint alleging misuse of the public funds, for example, could prompt reconsideration of the tentative waiver and a determination that an audit is necessary to review whether the funds were accounted for properly and used for their intended public purposes.

A tentative waiver granted by the State Examiner applies only to the audit required by IC 5-11-1-9. It does not waive a federal Uniform Guidance audit or any other audit pursuant to contractual agreements with grantor agencies.

OVERVIEW OF THE AUDIT PROCESS

Our involvement in the audit process is triggered by the filing of the Entity Annual Report (E-1) as required by IC 5-11-1-4. Based on the financial information reported, we advise the entity if an audit is required, or if they qualify for a tentative waiver in accordance with IC 5-11-1-9. Although we realize many entities begin arranging for their audit prior to their fiscal year end, it is not possible for us to make a final determination prior to reviewing the E-1. An entity that routinely requires an audit under our thresholds can submit their audit contract for our review prior to submission of the E-1; however, final audit requirement determination under our statute will be made following the submission of the E-1.

Once an entity is notified of their audit requirement, they should confirm with their funding agencies the type of audit required and begin the process of evaluating and selecting an auditor if they have not already done so.

After the entity has selected an auditor, a copy of the contract (or engagement letter) should be submitted to the Indiana State Board of Accounts for review and approval. Only contracts that include language that both parties will comply with the provisions of State Examiner Directive 2015-2 and include the same as an attachment to the contract will obtain approval.

The auditor should advise the entity and the Indiana State Board of Accounts of the date, time, and location of the entity's exit conference upon completion of the field work. The issued audit report and any separate written communication from the auditor to the entity, such as a governance/management letter, is to be submitted to the Indiana State Board of Accounts. Providing these documents to the Indiana State Board of Accounts is a responsibility of the auditor. These files should be submitted as an unlocked PDF file either in the upload files section of the Gateway or via email to notforprofit@sboa.in.gov. Unlocked files allow us to upload the report to our website for public inspection, and separate report and governance/management letter files lessen the possibility that internal communications not meant for public release become public.

The Indiana State Board of Accounts performs a quality control review of the audit report, during which, we review for sufficiency in scope and adequacy in quality and evaluate any findings of noncompliance for further action required of this department. If we determine an on-site review of the auditor's workpapers is necessary, the auditor will be assessed a fee.

Upon completion of the quality control review, the audit report is made available for public inspection by this department. In most instances, our review will be separate and distinct from any audit review/resolution process administered by a funding agency.

AUDIT COORDINATION AND ADMINISTRATION

The coordination and administration of entity audits is somewhat complex. Audits may be initiated and administered by the Indiana State Board of Accounts; by state or local government funding agencies; or by entities themselves. Audits may be performed by the Indiana State Board of Accounts; private examiners hired by this department; or private examiners approved by the Indiana State Board of Accounts and hired by funding agencies or entities. Audit costs are the responsibility of the entity examined regardless of who is performing the audit.

It is unlikely that the Indiana State Board of Accounts will perform many of these audits. It is also unlikely there will be more than a few instances in which we initiate and administrate the audit process. However, coordination of these audits with the Indiana State Board of Accounts is required. We, therefore, require the submission of all entity audit contracts to us for approval. Contracts with no reference to or acknowledgment of the responsibility of the Indiana State Board of Accounts in this process via reference to State Examiner Directive 2015-2 and inclusion of the same as a contract amendment will be rejected.

The primary responsibility for ensuring the appropriateness, timeliness, and completeness of an entity's audit rests with the entity itself. However, successful completion of the audit process cannot be accomplished without the direct cooperation and assistance of funding agencies, independent auditors, and the Indiana State Board of Accounts. Due to the complexity of government regulations and the uniqueness of existing arrangements and relationships between funding agencies and entities, it is imperative that entities and their auditors confirm in advance the type and scope of audit necessary to satisfy all parties involved. This extra effort during the preliminary phase of the audit process will ensure that one and only one audit need be performed.

AUDITOR EVALUATION AND SELECTION

To perform audits in accordance with IC 5-11-1-9, the services of an Independent Public Accountant (IPA) will be required. IPAs are Certified Public Accountants (CPAs) and Public Accountants (PAs) licensed to practice public accounting in the State of Indiana.

To facilitate the engagement of an IPA, Requests For Proposals (RFPs) should be used to solicit responses from qualified independent auditors (private examiners) for professional financial and compliance auditing services. The RFP process can result in comprehensive responses that assure audit services offered are consistent with services desired. The RFP process can also provide certain assurances that competitive review and selection procedures were applied in contracting for the audit.

It is essential that RFPs for auditing services be comprehensive and cover all matters, issues, and subjects which have a bearing on the audit. Information about the entity to be audited and necessary elements of the audit requirements must be provided to independent auditors to ensure clear and complete responses. Interested auditors usually respond to RFPs with a detailed audit proposal outlining the firm's qualifications, references, proposed audit work plan, and the estimated audit cost.

The RFP document should be communicated to independent auditors by any appropriate form and manner to assure open and competitive coverage. A public notice may or may not be utilized. Also, other methods of communicating requests for auditing services may be desirable, such as contact with the State CPA Society or the local chapter. Invitation for bid listings in newspapers are a commonly used public notice.

The notice of proposal (or letter of transmittal) to prospective respondents should briefly summarize all important information regarding the RFP. It may include:

1. Name and address of government or entity issuing the RFP.
2. Name, address, title, and phone number of person(s) to contact regarding questions.
3. Response due date and time deadline.
4. Number of copies of response.
5. Contract period (year(s) to be audited).
6. Specific location and method of delivery of response. Specific sealed response/price requirements, if any.
7. Required compliance with State Examiner Directive 2015-2.
8. Other stipulations and clarifications as required.
9. Name, title, and signature of official who transmits the proposal.

AUDITOR EVALUATION AND SELECTION
(Continued)

To be considered for audit services, a respondent must:

1. Be a certified public accountant (CPA) and licensed to practice in the State of Indiana or have a CPA license from a state that has been determined to be in substantial equivalence with the CPA licensure requirements of the State of Indiana in accordance with IC 25-2.1-4-10(a);
2. Meet independence requirements of the American Institute of Certified Public Accountants (AICPA) and the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, as applicable;
3. If performing audits under GAGAS, meet continuing professional education requirements in accordance with Government Auditing Standards issued by the Comptroller General of the United States;
4. Obtain an external peer review at least once every three years and attain a rating of Pass or Pass with Deficiencies;
5. Understand applicable uniform compliance guidelines, policies, and directives established by the Indiana State Board of Accounts.

State agencies are required to use the RFP process if they contract for audits of entities they fund. They are required to submit the RFP to the Indiana State Board of Accounts for approval prior to issuance. In addition, the Indiana State Board of Accounts will review the evaluation method used in selecting the successful respondent.

Local governments contracting for audits of entities they fund and entities contracting for their own audit are not required to issue RFPs. However, the Indiana State Board of Accounts does recommend the RFP process for anyone soliciting audit services.

CONTRACT APPROVAL PROCESS

As discussed previously, the audits of entities receiving financial assistance will be performed primarily by Independent Public Accountants (IPAs) authorized or designated by the Indiana State Board of Accounts.

To obtain approval for the audit, the audit contract (or engagement letter) must be submitted to the Indiana State Board of Accounts prior to signing. The audit organization should also provide their most recent external peer review report and any letter of comment.

All IPAs engaged by the State Examiner or allowed to be engaged in accordance with IC 5-11-1-7(b) must meet the following qualifications:

1. Be a certified public accountant (CPA) and licensed to practice in the State of Indiana or have a CPA license from a state that has been determined to be in substantial equivalence with the CPA licensure requirements of the State of Indiana in accordance with IC 25-2.1-4-10(a);
2. Meet independence requirements of the American Institute of Certified Public Accountants (AICPA) and the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, as applicable;
3. If performing audits under GAGAS, meet continuing professional education requirements in accordance with Government Auditing Standards issued by the Comptroller General of the United States;
4. Obtain an external peer review at least once every three years and attain a rating of Pass or Pass with Deficiencies;
5. Have no record of performing substandard audits;
6. Understand and comply with applicable uniform compliance guidelines, policies, and directives established by the Indiana State Board of Accounts;
7. Understand the role of the Indiana State Board of Accounts in the audit process and that the IPA is acting as an agent for the State Examiner;

As part of our review of the audit contract, we will review the contract to ensure that the audit being contemplated appears appropriate in relation to the information reported on the E-1 Entity Annual Report.

Upon completion of our review, we will issue a written approval or rejection of the contract. Our reason(s) for rejecting any audit contract will be stipulated in writing. Contracts with no reference to acknowledgment of the responsibility of the Indiana State Board of Accounts in this process via reference to State Examiner Directive 2015-2 and inclusion of the same in the contract will be rejected.

Notice to Auditors:

The approval of your audit contract by this department is not an assertion that your audit will satisfy federal funding agencies or other reporting requirements. Our approval is based on limited knowledge of your client's overall audit requirements and is not to be used as a substitute for thorough planning by you.

AUDITOR RESPONSIBILITIES

The following are the responsibilities of the auditor:

1. The audit will be performed in accordance with auditing standards generally accepted in the United State of America, Government Auditing Standards, (if applicable), and federal Single Audit requirements (if applicable).
2. The Indiana State Board of Accounts will be notified immediately if suspected instances of fraud or abuse are discovered during the course of audit regardless of materiality.
3. The Indiana State Board of Accounts will be notified via email a minimum of five (5) days prior to the date, time, and location of the exit conference.
4. The Indiana State Board of Accounts will be provided a copy of the audit report, as well as any separate communication to the entity's governance and/or management. The audit report must be submitted in an unlocked pdf file. These files are to be uploaded in the Gateway (using the Upload Files option) or may be emailed to: notforprofit@sboa.in.gov.
5. The Indiana State Board of Accounts will be provided the names, postal addresses (preferably office address if they normally receive mail there), and email addresses of the entity's chief executive officer, chief financial officer (if any), and governing board president.
6. Workpapers supporting the audit report will be made available for review by the Indiana State Board of Accounts at the State Examiner's discretion.
7. All correspondence will be via the following email address: notforprofit@sboa.in.gov.

GUIDELINES FOR AUDITS

Auditing Standards to be Applied

Audits of entities must be performed in accordance with auditing standards generally accepted in the United States of America, commonly referred to as Generally Accepted Auditing Standards (GAAS), and the following applicable guidelines or requirements, if applicable.

Entities that receive and expend federal awards are subject to the provisions of the Single Audit Act. The Single Audit Act requires the Office of Management and Budget (OMB) to prescribe policies, procedures, and guidelines necessary for its implementation. In December of 2013, the OMB issued new guidance, the "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" or "Uniform Guidance." The Uniform Guidance supersedes what had been previously contained in eight separate OMB Circulars. Prior to the issuance of the Uniform Guidance, OMB Circular A-133 governed the audit requirements under the Single Audit Act. Subpart F of the Uniform Guidance supersedes Circular A-133. Subpart F, Audit Requirements, applies to audits of non-Federal entity fiscal years beginning on or after December 26, 2014 (the first fiscal year that begins after December 26, 2014). For a calendar year-end entity, this requirement became effective for December 31, 2015 year-end audits.

Single Audits are required to be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Please note: An audit done in accordance with federal Single Audit Act satisfies the audit required by IC 5-11-1-9.

Scope of the Audit

IC 5-11-1-9 requires the complete audit of an entity when the public funds disbursed by that entity are equal to or greater than 50 percent of the total disbursements for the period. Disbursements are defined as cash outlays occurring during the normal course of business, but excludes the purchase of investments, bank transfers, retirement of debt incurred as a result of cash flow shortfalls, etc. In this document, "complete audit" means an audit covering financial, compliance, and evaluation of internal control.

The scope of the audit will be limited to the use of public funds when public funds disbursed are either less than 50 percent, or greater than 50 percent but less than \$750,000 of the entity's total disbursements, if not in conflict with federal requirements. Where federal awards are involved, auditors are advised to comply with federal audit requirements. If the federal funds are large enough to require an organization-wide audit, then the scope of that audit must include tests of compliance with the grant provisions of any nonfederal public funds involved.

Duplication of auditing efforts should be avoided.

Compliance with Legal and Regulatory Requirements

Nonprofit entities receiving financial assistance from the federal government are subject to the administrative requirements set forth in Uniform Guidelines discussed above. Three of the most important requirements are recipient eligibility, allowability of services, and matching requirements. If funds are used to provide services to ineligible recipients and/or to provide services not included in the grant award, or if the matching requirements are not met, the total amount of the award may have to be returned to the grantor agency.

GUIDELINES FOR AUDITS
(Continued)

Entities receiving financial assistance from state or local governments are subject to the following general requirements:

Existence of contracts with grantor agencies for all assistance received.

Retention of financial records, supporting documents, statistical records and all other records pertinent to the agreements for a period of at least three years.

Maintaining a financial management system that provides:

- a. Accurate, current, and complete disclosure of the financial results of each government-sponsored project or program.
- b. Records that adequately identify the source and application of funds for government-sponsored activities. Records shall contain information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays, and income.
- c. Effective control over and accountability for all funds, property, and other assets.
- d. Procedures for determining the reasonableness, allowability, and allocability of costs in accordance with the provisions of the applicable cost principles and the terms of the grant or other agreement.
- e. Accounting records that are supported by source documentation.
- f. Compliance with annual reporting requirements of the Secretary of State and the Indiana State Board of Accounts.
- g. Compliance with rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies.
- h. Adequate fidelity bonding and insurance coverage if required by the funding agency.

The above are not intended to represent the only applicable regulations since the entity may be regulated by certain state statutes, its own bylaws, and provisions within the agreements, all of which may require testing.

Report

The report must contain the financial statements of the entity and the auditor's opinion thereon. The financial statements may be prepared by the entity on a GAAP basis or a comprehensive basis of accounting other than GAAP (cash or modified cash basis).

The report must also contain any other reports, schedules, or opinions required by Government Auditing Standards and/or Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) if applicable. It is the policy of the Indiana State Board of Accounts that the corrective action plan required by 2 CFR Part 200, Subpart F § 200.511(c) be included with the report that is made available for public inspection on our website.

GUIDELINES FOR AUDITS
(Continued)

In addition, the report must contain a schedule of all federal, state, and local assistance received and disbursed in the fiscal year similar to the way it is reported in the Entity Annual Report (E-1).

Audit Frequency and Completion

Audit frequency of entities is subject to establishment or approval by the Indiana State Board of Accounts on an annual or biennial basis in accordance with IC 5-11-1-25. Audits are to be completed and the reports issued within nine months after the close of the audit period. Any requests for an extension of time must be in writing to the Indiana State Board of Accounts.

AUDIT REVIEW AND ACCEPTANCE

Due to our oversight responsibility for audits performed in accordance with IC 5-11-1-9, a desk review of the audit report and other documentation required to be submitted is conducted by central office staff. During this review, attention is focused on the appropriateness and completeness of the report presentation. The financial statement opinion and reports on internal control and compliance, if required, are reviewed in detail. Questioned costs and audit findings are also reviewed for determination of additional work required by our department, if any.

Upon completion of our review, the audit report is made available for public inspection on the Indiana State Board of Accounts' website (www.in.gov/sboa). The report may be made available before or after completion of a funding agency's audit resolution process.

Furthermore, a quality control review of an auditor's work may be conducted by the Indiana State Board of Accounts. The primary purpose of a review is to determine the auditor's degree of compliance with appropriate professional standards and the adequacy of audit documentation. The objective of an audit of financial statements performed in accordance with generally accepted auditing standards (GAAS) is for the auditor to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects. Reasonable assurance is reached when the auditor has obtained sufficient (quantity) and appropriate (quality) audit evidence.

Audit evidence is the information used by the auditor in arriving at the conclusions on which the auditor's opinions and reports are based. Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Standards require audit documentation to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of the procedures performed; the results of the audit procedures performed and the audit evidence obtained; and the significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. In the audit industry, if procedures performed, support obtained, and conclusions reached are not documented, then the presumption is they were not done.

This quality control review may be performed "on-site" at the auditor's place of business by department staff. They are conducted at times mutually agreeable to both the Indiana State Board of Accounts and the Independent Public Accountant. Scheduling flexibility is available, in most cases, to allow for seasonal demands of the profession although unnecessary delays or demonstrated noncooperation by an auditor may result in rejection of future audit contracts. The review is generally completed within one day and should require minimal assistance from the auditor. Upon completion, an exit conference is held where the results of the review are discussed.

We are required by statute to charge an entity for the cost of this review. The cost for this review is above and beyond any audit fees due the auditor.