

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



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On September 1, 1986, the State Board of Accounts became responsible for establishing Uniform Compliance Guidelines for the examination of government funded entities. Shortly before the end of that year, our first issue entitled, Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources 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 State Board of Accounts in the audit of public funds disbursed by nongovernmental entities. Through the annual reporting process and our involvement in approving audit contracts with independent public accountants, we have attempted to ensure entities subject to federal or state audit requirements, have met these requirements 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 Single Audit 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 grant activity or a listing of all federal, state and local grants 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.

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 independent public accountants (IPAs) for the cooperation and assistance they have provided. We hope these Guidelines will assist you in successfully addressing your responsibilities.

Paul D. Joyce, C.P.A.  
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. 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.

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.

Since 1986, considerable confusion has existed regarding the "purchase of service" or "fee for service" (procurement) vs. "financial assistance" (grants) issue. During this time the State Board of Accounts has attempted to provide as much clarification and guidance as possible. Our efforts though, have been hampered by inconsistency in views held by federal funding agencies. As a result, our view regarding this issue is limited to **nonfederal funding** provided by state and Indiana local government.

We believe nonfederal funding arrangements that meet **all** of the following criteria, should be viewed as a "fee for service" and not "financial assistance":

1. A contract for services exists between the provider and recipient.
2. The contract stipulates a predetermined amount to be provided, per unit of service performed. An agreement as to an annual amount for services to be provided, whether billed annually or monthly based on that annual contract amount, will generally not meet the definition of fee for service.
3. Claims for payment are submitted by the recipient after the service is performed, with sufficient documentation to evidence the units of service provided.
4. The total amount provided during the contract period is not subject to adjustment due to variances between a recipient's estimated and actual cost of providing the service.

**It will be the determination of the State Board of Accounts and not the entity, as to whether the funding arrangement meets the definition of fee for service. Copies of the contracts and other information may be required to be submitted and will be reviewed to determine the proper categorization of funding.**

Although our views regarding this issue do not limit or restrain state and local government providers from requesting independent audits of these contracts, we believe our responsibility under IC 5-11-1 can be adequately addressed during our audits of the government providers.

Organizations participating in nonfederal "fee for 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.

Entities receiving federal financial assistance directly from the U.S. Treasury or as a pass-through from a state or local government are subject to federal Single Audit requirements. In addition, as of 1986, all entities receiving financial assistance from state and local government, involving federal, state and local dollars are subject to audit by state law.

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

Entities whose public fund disbursements are less than 50% of their total; and entities incorporated as not-for-profit corporations whose public fund disbursements are equal to or greater than 50%, but less than \$200,000, qualify for waiver of these audit requirements. The desire for waiver is assumed by the State Board of Accounts, and will be granted if the State Examiner, through other means, can determine the disbursement of public funds was made for the purpose intended.

A waiver granted by the State Examiner applies only to the audit required by IC 5-11-1-9. It does not waive a federal Single Audit or audit pursuant to contractual agreements with grantor agencies. Therefore, it is possible that an entity receiving a waiver from the State Board of Accounts will still be required to have a federal Single Audit performed.

The dollar threshold under IC 5-11-1-9 remains at \$200,000. Because of this, there will be entities expending less than the federal audit threshold that are exempt from Federal audit requirements, but are required to have an audit under the Indiana Code. In these instances, an audit made in accordance with generally accepted auditing standards (GAAS) will suffice, as long as this is acceptable to all funding agencies. Entities should contact their funding agencies to ensure a GAAS audit is acceptable.

Entities are required pursuant to IC 5-11-1-4 to file an entity annual report with the State Board of Accounts annually. The Report, the E-1 Entity Annual Report, 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.

The State Board of Accounts has implemented a new electronic submission process for the filing of E-1 Entity Annual Reports through the Indiana Gateway for Government Units (Gateway). With the completion of this new electronic submission process, not-for-profit and for-profit entities will join local units of governments in submitting their statutorily required annual reporting to the State Board of Accounts through the Gateway system. Gateway submission will be the only means of submitting your E-1 Entity Annual Report beginning with 2015 reporting. An E-1 Entity Annual Report submitted by any other means or in any other format WILL NOT BE ACCEPTED. Reports for years ending December 31, 2014 and prior cannot be submitted through Gateway and should be filed using the traditional hardcopy E-1 report. If you need a copy of that report, please contact us at [notforprofit@sboa.in.gov](mailto:notforprofit@sboa.in.gov). The due date for submission is 60 days after your entity's annual year-end.

## PROVIDERS OF FINANCIAL ASSISTANCE

Many state and local government agencies and nonprofit organizations provide financial assistance in the form of grants or subsidies to private, nongovernmental organizations. These organizations, in return, utilize these public funds to provide goods, services, or other benefits of a governmental nature for the public benefit.

State and local governments, as well as nonprofit entities that receive federal awards, are subject to the provisions of the federal Single Audit Act. The Single Audit Act requires a single, organization-wide audit of state and local governments and nonprofit organizations that meet the single audit threshold.

As of September 1, 1986, Indiana Law (IC 5-11-1-9) requires the audit of all financial assistance provided by or passed through the State of Indiana and Indiana local government agencies, to nongovernment organizations. Oversight responsibility for these audits has been delegated to the State Board of Accounts. These state and local government providers of financial assistance to nongovernmental organizations are required to include wording in their contracts that allow for audits by our department and require compliance with the annual reporting requirement (Form E-1) discussed elsewhere in this guide.

Financial assistance provided by or passed through state and local government agencies of states other than Indiana and other nonprofit organizations are not considered financial assistance for purposes of determining an entity's audit requirements under this statute.

State and local government providers are also required to assist recipients and subrecipients, when requested, in determining their audit requirements. It is the responsibility of state and local government agencies to inform these organizations of any federal funds being passed through to them.

Indiana state and local government agencies are also subject to audit by the State Board of Accounts. We are the State Clearinghouse for the filing of all Single Audit reports issued for these agencies. Single Audits conducted by the State Board of Accounts are accepted by all federal cognizant agencies.

Effective for periods beginning after June 30, 1996, Single Audit reports will be submitted to the federal clearinghouse designated by OMB. If requested, one additional copy of the audit report must be submitted to the State Board of Accounts.

## OVERVIEW OF THE AUDIT PROCESS

Our involvement in the entity audit process is triggered primarily by the filing of an Entity Annual Report (Form E-1) electronically via Gateway. Based on the financial information reported, we advise the entity if an audit, in accordance with these guidelines is required, or if they qualify for a waiver of this requirement. Although we realize many entities begin arranging for their audit prior to their year end, it is impossible for us to transmit our notification prior to reviewing the Form 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.

After the entity has selected an auditor, and the auditor has confirmed the type of audit required, a copy of the contract, or engagement letter, should be submitted to the 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 same as an attachment to the contract will obtain approval. Upon approval of the contract, the audit should begin.

Upon completion of field work, the auditor should advise the entity and the State Board of Accounts of the date, time and location of the entity's exit conference. Upon completion of the audit, copies of the report should be provided to the entity, all funding agencies and the State Board of Accounts. If additional comments have been provided to the entity in a separate communication such as a governance/management letter, a copy of this should be submitted with the report to the State Board of Accounts. The report and governance/management letter should be submitted in separate, unlocked electronic files.

Upon receipt of the audit report, funding agencies will commence their review/resolution process, and the State Board of Accounts will commence the quality control review of the auditor's work. In addition to reviewing the report for sufficiency in scope and adequacy in quality, we will evaluate findings of noncompliance for further action required of this department. If we determine an on-site review of the auditor's workpapers is necessary, we are required to charge the auditee for this service.

Upon completion of the quality control review by the State Board of Accounts, the audit report is made available for public inspection by this department. In most instances, our review will be separate and distinct from the 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 administrated by the State Board of Accounts; by state or local government funding agencies; or by entities themselves. Audits may be performed by the State Board of Accounts; private examiners hired by this department; or private examiners approved by the State Board of Accounts and hired by funding agencies or entities. Audit costs are the responsibility of the entity examined as well as any on-site review of the auditor's workpapers.

It is unlikely that the 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 State Board of Accounts is required. We, therefore, require the submission of all entity audit contracts to us for approval, prior to signing.

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 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 assure 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 price of doing the audit.

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. Specify location and method of delivery of response. Specify 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.

To be considered for audit services, a respondent must:

1. Be properly licensed for public practice as a Certified Public Accountant or Public Accountant in The State of Indiana.
2. Meet applicable independence requirements of the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (Yellow Book) or American Institute of Certified Public Accountants.

AUDITOR EVALUATION AND SELECTION  
(Continued)

3. Have no record of performing substandard audit work.
4. Understand and accept the role of the State Board of Accounts in the audit process.

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 State Board of Accounts for approval, prior to issuance. In addition, the 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 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 authorized or designated by the State Board of Accounts.

To obtain approval for the audit the audit contract, or engagement letter, must be submitted to the 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. During our review of the contract, we attempt to ascertain the following:

1. The Auditor selected:
  - a. Is licensed to practice public accounting in the State of Indiana.
  - b. Acknowledges awareness of governmental audit requirements (if applicable) and professional standards.
  - c. Has no record of performing substandard audits.
  - d. Understands the role of the State Board of Accounts in the audit process.
2. The Audit contemplated:
  - a. Appears appropriate in relation to the information reported on the 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 or acknowledgment of the responsibility of the State Board of Accounts in this process via reference to State Examiner Directive 2015-2 will be rejected.

### **Notice to Auditors:**

The approval of your audit contract by this department is not an assertion 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 State Board of Accounts will be notified immediately via email if suspected instances of fraud or abuse are discovered during the course of audit regardless of materiality.
3. The State Board of Accounts will be notified via email a minimum of five (5) days prior to the date, time and place of the exit conference.
4. The 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 shall be uploaded in Gateway (using the Upload Files option) or may be emailed to: [notforprofit@sboa.in.gov](mailto:notforprofit@sboa.in.gov).
5. The 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 and any separate communication to the entity's governance and/or management will be available for review by the State Board of Accounts at the State Examiner's discretion.
7. All correspondent will be via the following email address: [notforprofit@sboa.in.gov](mailto:notforprofit@sboa.in.gov).

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## GUIDELINES FOR AUDITS

This guide is for use on audits of entities receiving governmental assistance in the form of grants, contracts and awards.

### 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, these requirement become 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% 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% or greater than 50%, but less than \$200,000 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.

GUIDELINES FOR AUDITS  
(Continued)

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.

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 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 by provisions within the agreements, all of which may require testing.

GUIDELINES FOR AUDITS  
(Continued)

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). In addition, the report must contain a schedule of all federal, state and local grant awards, showing the award balances at year end as well as the changes in award balances during the period. If the entity receives only nonfederal (state or local) governmental grants, this information may be presented in a note to the financial statements, rather than as a separate schedule.

If the entity is required to have a single audit, the report must include a schedule of expenditure of federal awards.

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. The report on internal control must contain a description of any significant deficiencies and material weaknesses in internal control over financial reporting noted during the audit. The report on compliance must contain a description of all instances of fraud and illegal acts and violations of provisions of contracts or grant agreements and abuse that could have a material effect on the financial statements. Recommendations for corrective action must be included for all findings.

Audit Frequency and Completion

Audit frequency of entities is subject to establishment or approval by the 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 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 quality control review of an auditor's work is conducted prior to issuance of audit reports by the State Board of Accounts.

The primary purpose of a review is to determine the auditor's degree of compliance with appropriate professional standards. A review may be performed "on-site" at the auditor's place of business by department staff. 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.

Quality control reviews are conducted at times mutually agreeable to both the State Board of Accounts and the Independent Public Accountant. Scheduling flexibility is available, in most cases, to allow for seasonal demands of the profession. Unnecessary delays or demonstrated noncooperation by an auditor will result in their removal from our list of approved auditors.

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.

Due to limited resources of many entities, quality control reviews are not conducted on all audits performed by IPAs. Once we have satisfied ourselves that an auditor is following appropriate professional standards, it is not necessary to review all audits performed by this auditor in accordance with IC 5-11-1-9.

Once the quality of the auditor's work has been ascertained, a desk review of the audit report 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 by the State Board of Accounts. The report may be made available before or after completion of a funding agency's audit resolution process.