

State of Alaska

Audit Guide and Compliance Supplement for State Single Audits

Department of Administration
Division of Finance

May 2019

TABLE OF CONTENTS

SECTION 1 - INTRODUCTION	3
Overview.....	3
Intent of the Guide	3
Effective Date	3
Purpose for Single Audit Regulation 2 AAC 45.010 - .090	4
Definitions.....	4
Future Improvements or Suggestions	5
SECTION 2 - REQUIREMENTS	6
State Single Audit and Major Program Thresholds	6
Total Adjusted Expenditures Calculation	6
Federal Pass-through Funds.....	7
State Programs Identified in 2 AAC 45.010(m)	7
Non-Cash State Financial Assistance	7
Professional Standards	7
Audit Requirements.....	8
SECTION 3 - REPORTING.....	9
Reporting Package.....	9
Minimum Printed Font Size Requirement.....	9
Schedule of State Financial Assistance	11
Example: Schedule of State Financial Assistance	12
Auditor's Reports	13
Example: Schedule of Findings and Questioned Costs.....	16
Corrective Action Plan.....	17
Summary Schedule of Prior Audit Findings	17
Example: Corrective Action Plan.....	18
Example: Summary Schedule of Prior Audit Findings	19
Illustrative Auditor's Reports.....	20
SECTION 4 - SUBMITTING SINGLE AUDITS.....	42
Where to Send Audits	42
What to Submit for a Complete Reporting Package	42
Centralized Monitoring of State of Alaska Agencies	43
SECTION 5 - QUESTIONS AND ANSWERS	44
SECTION 6 - REPRINT OF 2 AAC 45	51
SECTION 7 - COMPLIANCE SUPPLEMENT	56
Compliance Supplement Overview	56
List of Agency Single Audit Representatives	56
General Compliance Requirements	58

SECTION 1 - INTRODUCTION

OVERVIEW

The ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits*** (the Guide) has been prepared to assist grantees and auditors with state single audit preparation. It contains two major sections:

- **Audit Guide:** Covers general information, audit, and reporting requirements. It is prepared by the single audit coordinator's office with the State of Alaska. This office is in the Department of Administration, Division of Finance.
- **Compliance Supplement:** Contains both the general compliance requirements, which are prepared by the single audit coordinator's office; and the specific compliance requirements, which are prepared by the various State of Alaska agencies administering the state financial assistance programs.

INTENT OF THE GUIDE

To a significant extent, the ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits*** is intended to parallel the federal Single Audit Act Amendments of 1996, and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

EFFECTIVE DATE

This Guide is effective for audits of fiscal years beginning July 1, 2018 and after, and supersedes the ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits*** issued in May 2018.

NONE OF THE MATERIAL IN THIS GUIDE SUPERSEDES OR REDUCES FEDERAL AUDIT REQUIREMENTS.



PURPOSE FOR SINGLE AUDIT REGULATION 2 AAC 45.010 - .090

The intent of the adoption and subsequent revisions to Alaska's single audit regulation 2 AAC 45 is to parallel the federal Single Audit Act Amendments of 1996, and 2 CFR Part 200, the Uniform Grant Guidance, to a significant extent. This enables the State to receive audits conducted for the federal government that also meet state agency information needs, resulting in an efficient and effective method of gathering information.

State single audits are intended to meet the basic audit needs for all state agencies in a non-duplicative way. However, single audits do not eliminate the possibility that some additional or different audit work may still be conducted on state awards. In some cases, agencies may need to conduct or request a program evaluation. Any follow-up work should build on the original single audit work.

Prior to the single audit regulation:

- Entities were frequently subject to multiple audits that were time-consuming, duplicative, and incomplete.
- The overall state view was narrowed to a department level and some grants were never audited.

Reasons for the state single audit regulation:

- To promote accountability of state financial assistance.
- To increase the efficiency of the monitoring process.

DEFINITIONS

Audit Period – The entity's fiscal year in which the entity expended financial assistance.

Department – Refers to the single audit coordinator's office in the Department of Administration, Division of Finance (the department). The department receives copies of all single audit reporting packages. After reviewing the reporting packages for timely submission; inclusion of required opinions, reports, and schedules; and conformance with professional standards, the department will distribute the audits to the appropriate state agencies.

Entity (Recipient) - An organization receiving financial assistance from the State of Alaska. "Entity" does not include the University of Alaska or any other state agency, a for-profit entity, or a non-United States based entity.

Financial Assistance - State grants, contracts, provider agreements, cooperative agreements, all forms of state financial assistance to an entity, and all forms of state financial assistance provided through an entity to a third party. Financial assistance does not include:

- Public assistance provided under AS 47.
- Goods or services purchased for the direct administration or operation of state government.

- Moneys advanced to an entity under one or more state loan programs.
- Power cost equalization payments made to an electric cooperative on behalf of its customers.
- Scholarships, loans or other tuition aid provided to students, but paid to an educational institution on their behalf.
- For a third party, “financial assistance” does not include goods purchased from the third party for direct administration or operation of the entity that received financial assistance.

Known Questioned Costs – Those questioned costs specifically identified by the auditor in the audit conducted under 2 AAC 45.

State Single Audit - Audits required under 2 AAC 45.010. Entities expending state financial assistance in amounts described in 2 AAC 45.010 are required to submit audits to the Department of Administration. Please refer to Section 6 for a complete reprinting of 2 AAC 45.

Subrecipient – An entity that receives state financial assistance passed through from the original recipient. The subrecipient is responsible for meeting the requirements of the assistance program.

Vendor – An entity that receives a procurement contract for goods or services from a recipient. Vendor contracts are usually a result of a competitive bidding process. A vendor’s responsibility is to meet the requirements of the procurement contract.

FUTURE IMPROVEMENTS OR SUGGESTIONS

We appreciate your assistance in identifying improvements for future updates to the ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits***. Please direct your comments to:

Colleen M. Campbell, Single Audit Coordinator
State of Alaska, Department of Administration
Division of Finance
PO Box 110204
Juneau, AK 99811-0204

Phone: (907) 465-4666
Fax: (907) 465-2169

E-mail: single.audit@alaska.gov

State Single Audit Website: <http://doa.alaska.gov/dof/ssa/index.html>

SECTION 2 - REQUIREMENTS

STATE SINGLE AUDIT AND MAJOR PROGRAM THRESHOLDS

State Single Audit Threshold: Unless additional audit requirements are imposed by state or federal law, a recipient of state financial assistance that **expends a cumulative total** equal to or greater than \$750,000 during the entity's fiscal year is required to submit an annual single audit. Please refer to the following section, "Total Adjusted Expenditures Computation" to calculate the cumulative total grant funds.

Audit emphasis must focus on the most important areas. Because it is impractical to audit all programs of every entity and keep the single audit emphasis on materiality and efficiency, auditors are required to evaluate administration of "major programs".

Major Program Thresholds: Auditor's will evaluate each grant award to see if the expenditures of state assistance for that award meet the threshold amount that would distinguish it as a major state program. Expenditure levels used to determine major program thresholds for state financial assistance during an entity's fiscal year are:

If the Total Adjusted Expenditures for <u>All</u> State Financial Assistance is:	The Major Program threshold is:
Less than \$1 million	\$ 75,000
\$ 1 to \$ 5 million	\$150,000
\$ 5 to \$20 million	\$200,000
Greater than \$20 million	\$500,000

If no single grant award meets the major program threshold, then awards totaling a minimum of 50% of the total adjusted expenditures will be selected by the auditor and audited as major programs.

TOTAL ADJUSTED EXPENDITURES CALCULATION

To determining whether the state single audit and major program thresholds have been met, follow these steps:

- Step #1: Start with the total expenditures from ALL financial assistance programs.
- Step #2: **Deduct any:** direct federal funds, federal pass-through funds, and any financial assistance from state programs identified in 2 AAC 45.010(m).
- Step #3: **Add** in any non-cash State financial assistance.
- Step #4: The remaining amount will be the **Total Adjusted Expenditures** for determining whether the state single audit and major program thresholds have been met.

FEDERAL PASS-THROUGH FUNDS

Federal money passed to an entity by the State of Alaska is **NOT** considered to be state financial assistance.

STATE PROGRAMS IDENTIFIED IN 2 AAC 45.010(M)

Financial assistance in the following form is **excluded** from the threshold calculation per 2 AAC 45.010(m). However, under 2 AAC 45.010(n), the excluded financial assistance in 2 AAC 45.010(m) is not exempt from compliance testing **if** the entity meets the threshold requirements under 2 AAC 45.010(b). Please refer to Section 6 for a complete reprinting of 2 AAC 45 and the specific statute citations.

- Community revenue sharing money provided under AS 29.60.850–29.60.879;
- Aviation fuel tax money provided under AS 43.40.010;
- Electric and telephone cooperative gross revenue tax refunds provided under AS 10.25.570;
- Alcoholic beverage license fee refunds provided under AS 04.11.610;
- Fisheries tax refunds provided under AS 29.60.450, AS 43.75.130, and AS 43.77.060;
- PERS/TRS relief funding under money appropriated to pay employer unfunded liability attributable to the entity under AS 14.25 and AS 39.35;
- Money expended for projects that are solely managed, supervised, and controlled by the Alaska Energy Authority under AS 44.83 and turned over to the grantee at the conclusion of the project.

NON-CASH STATE FINANCIAL ASSISTANCE

State non-cash financial assistance, such as free rent, donated commodities or property, donated surplus property, etc. shall be valued at fair market value at the time of receipt or the assessed value provided by the state agency. Non-cash financial assistance values must be included in the total adjusted expenditures computation for the fiscal year in which it was received.

PROFESSIONAL STANDARDS

Auditors must comply with the current standards contained in and/or issued by:

- American Institute of Certified Public Accountants (AICPA)
- ***Government Auditing Standards***
- Governmental Accounting Standards Board (GASB)
- The Alaska Administrative Code **2 AAC 45**
- The ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits***

AUDIT REQUIREMENTS

State Single Audit Requirements under 2 AAC 45.010: An entity that meets the state single audit threshold is required to have an independent auditor conduct an audit for the entire operations of the entity.

The audit must be conducted according to the audit standards effective at the time of review for the audit period. Auditor's reports must be consistent with current professional standards for the type of audit the auditor is currently reporting on. Current audit standards are identified in the previous section, "**Professional Standards.**"

In instances where the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* conflicts with current generally accepted auditing standards (GAAS) or *Government Auditing Standards*, the auditor should comply with the most current applicable GAAS and *Government Auditing Standards* instead of the outdated or conflicting guidance.

The audit package must include the reports listed in **Section 3 – Reporting**.

SECTION 3 - REPORTING

REPORTING PACKAGE

An entity that meets the state single audit requirements is required to submit a reporting package that includes the following:

- Audited financial statements and notes to the financial statements that include the appropriate addressee name, statement titles and dates.
- Schedule of State Financial Assistance and notes that describe the significant accounting policies used in preparing the schedule. See example on page 12.
- Auditor's reports - To make the reports understandable and reduce the number of reports issued, the following format of reports is required:
 - Opinions (or disclaimers of opinions) on the financial statements and the Schedule of State Financial Assistance.
 - Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with ***Government Auditing Standards***.
 - Report on Compliance for Each Major State Program and Report on Internal Control over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*
- Schedule of Findings and Questioned Costs. See example on page 16.
- Corrective Action Plan (as applicable). See example on page 18.
- Summary Schedule of Prior Audit Findings (as applicable). See example on page 19.
- Copy of any management letter issued by the auditor (as applicable).

MINIMUM PRINTED FONT SIZE REQUIREMENT

Information contained in the financial statement audit and single audit reports are read by a variety of users to assess, among other things, the financial condition of the organization and make decisions on the allocation of resources. Readability of the audit report is essential for these objectives to be met.

Recently, audit reports have been received with font sizes in the printed reports that have been reduced below a reasonable - and readable – level, to the point that the reports cannot be read without the benefit of magnification aids.

Our goal is to encourage – rather than discourage – the use of the audit reports. So that readability is not a deterrent to users, we are establishing the following minimum requirements for the reporting package:

- An easily readable font, with text and numbers no smaller than a font size of 9-point **in the printed reports**.
- Applies to the entire single audit reporting package, which includes all statements, schedules, footnotes and appendices that appear in the financial statement audit report, single audit report, corrective action plan and schedule of prior audit findings.
- Minimum font size applies to the **printed** document – that is the document cannot start out with a font size 9 and then be further reduced to fit on the page of the printed report.

As a reference, the body of the text in this document is Arial, font size 12.

Until the Department of Administration receives sufficient copies of acceptable audit reports, including the items noted above (as applicable), the auditee has not met the audit requirement.



SCHEDULE OF STATE FINANCIAL ASSISTANCE

At a minimum, the Schedule of State Financial Assistance (see example on the following page) prepared by the *auditee* must include the following information for **each** financial assistance award:

1. Name of state agency administering the award;
2. Award name and award number;
3. Expenditures for audit period;
4. Amounts passed through to subrecipients;
5. Identification of major state programs.

The Schedule of State Financial Assistance must include total overall state expenditures, as well as expenditures subtotaled by each awarding agency (e.g. Alaska Housing Finance Corporation, Department of Public Safety, Department of Fish & Game, etc.).

Notes to the Schedule: Notes to the Schedule of State Financial Assistance that describe the significant accounting policies used in preparing the schedule must be included. When applicable, the notes must also include amounts provided (passed through) to subrecipients, and the value of State non-cash assistance (such as free rent, donated commodities, donated property, etc.).

Optional Information: Any other information, such as the following, may be included to make the schedule easier to read:

- Award Period
- Award Amount
- Beginning Revenues Receivable (deferred revenue)
- Ending Revenues Receivable (deferred revenue)

Name of Entity
EXAMPLE: SCHEDULE OF STATE FINANCIAL ASSISTANCE
Year Ended June 30, 201x

STATE AGENCY / PROGRAM TITLE	AWARD NUMBER	TOTAL AWARD AMOUNT	PASSED THROUGH TO SUBRECIPIENTS	STATE EXPENDITURES
<u>DEPARTMENT OF PUBLIC SAFETY</u>				
* VILLAGE PUBLIC SAFETY OFFICER	20-00x	\$ 610,000	\$ 0	\$ 495,000
TOTAL DEPARTMENT OF PUBLIC SAFETY		610,000	0	495,000
<u>DEPARTMENT OF NATURAL RESOURCES</u>				
SNOWMOBILE TRAILS GRANT	HS 19.01.0x	30,000	0	24,084
COOP MARKETING GRANT	GRT 19xx3x	25,000	25,000	25,000
TOTAL DEPARTMENT OF NATURAL RESOURCES		55,000	25,000	49,084
<u>ALASKA HOUSING FINANCE CORPORATION</u>				
* WEATHERIZATION ASSISTANCE PROGRAM	003xxx	481,000	0	416,511
TOTAL ALASKA HOUSING FINANCE CORPORATION		481,000	0	416,511
TOTAL STATE FINANCIAL ASSISTANCE:		\$ 1,146,000	\$ 25,000	\$ 960,595

NOTE 1: MAJOR PROGRAM NOTATION

* denotes a major program.

NOTE 2: BASIS OF PRESENTATION

The accompanying schedule of state financial assistance (the "Schedule") includes the state award activity of Example Entity under programs of the State of Alaska for the year ended June 30, 201x. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of Example Entity, it is not intended to and does not present the financial position, changes in net assets or cash flows of Example Entity.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

NOTE 4: AWARDS TO SUBRECIPIENTS

Of the state expenditures presented in the Schedule, Example Entity passed state awards on to this subrecipient(s):

PROGRAM / AWARD #	NAME OF SUBRECIPIENT	AMOUNT TO SUBRECIPIENT
Regional Library-GRT 19xx3x	Organization ABC	\$ 25,000

AUDITOR'S REPORTS

Auditor's opinions and reports must include the following:

1. Opinions on financial statements and Schedule of State Financial Assistance

- An opinion (or disclaimer of opinion) on whether the financial statements are presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America.
- An opinion (or disclaimer of opinion) on whether the Schedule of State Financial Assistance is presented fairly in all material respects in-relation-to the financial statements as a whole.

2. Internal Control Related to the Financial Statements and on the Internal Control Related to Major Programs

Reports must describe the scope of testing of internal control and the results of the tests and, where applicable, must refer to the separate Schedule of Findings and Questioned Costs. It is not expected that the auditor will test internal control structure policies and procedures on which there is no intent to rely for purposes of expressing an opinion on compliance or the financial statements.

3. Compliance with Laws, Regulations, and the Provisions of Contracts and Grant Agreements, Noncompliance that Could Have a Material Effect on the Financial Statements and Each Major Program

Reports must include an opinion (or disclaimer of opinion), on whether the auditee complied with laws, regulations, and the provisions of applicable contracts or grant agreements; noncompliance with which could have a direct and material effect on the financial statements and each major program. As applicable, the report must refer to the separate Schedule of Findings and Questioned Costs.

4. Schedule of Findings and Questioned Costs – (See example on page 16)

A Schedule of Findings and Questioned Costs, which includes the following three components:

A. Summary of the auditor's results, which shall include:

- 1) 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);
- 2) A statement indicating if any significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
- 3) A statement on whether the audit disclosed any noncompliance that is material to the financial statements;
- 4) The type of report the auditor issued on compliance for major state programs (i.e., unmodified opinion, qualified opinion, adverse opinion or disclaimer of opinion);

- 5) A statement indicating if any significant deficiencies or material weaknesses in internal control over state major programs were disclosed by the audit;
 - 6) The dollar threshold used to distinguish state major programs.
- B. Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.
- C. Findings and questioned costs for state awards.
- 1) Audit findings should be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action, and for State agencies to arrive at a management decision.
 - 2) The following specific information must be included in each audit finding:
 - a. A **unique** reference number¹ assigned to each audit finding (financial statement finding or state award finding) using the following standard format: the four-digit audit year, a hyphen and a three-digit sequence number (e.g., 2019-001, 2019-002...2019-999).
 - b. Identification of the state award(s), grant number(s), state funding agency or agencies and name of the applicable pass-through entity for which the deficiency was found.
 - c. The criteria or specific requirement upon which the audit finding is based, including the statutory, regulatory, or other citation.
 - d. The condition found, including facts that support the deficiency identified in the audit finding.
 - e. Identification of questioned costs for state awards that exceed \$5,000 in the aggregate for all tested transactions for financial assistance being audited, and how they were computed. When no questioned costs are identified, auditor will include a statement to that effect.
 - f. Information to provide proper perspective for judging the prevalence and consequences of the audit finding.
 - g. The possible asserted effect to provide sufficient information to the auditee and state agency to permit them to determine the cause and effect, to facilitate prompt and proper corrective action.
 - h. Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, any applicable prior year audit finding numbers.
 - i. Recommendations to prevent future occurrences of the deficiency identified in the audit finding.

¹ Financial statement findings and state award findings **may not share the same finding number**. Each finding is expected to have a unique finding number.

- 3) Audit findings which relate to the same issue should be presented as one finding.
- 4) Audit findings that relate to both the financial statements and state awards must be reported in their respective sections of the Schedule of Findings and Questioned Costs and ***assigned unique finding reference numbers in each section.***

However, the reporting in one section of the schedule may be in summary form, with a reference to the detailed reporting in the other section of the schedule.

Name of Entity
EXAMPLE: SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 201x

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified? ☐ Yes ☒ No
- Material weakness(es) identified? ☐ Yes ☒ No
- Noncompliance material to financial statements? ☐ Yes ☒ No

State Financial Assistance

Type of auditor’s report issued on compliance for major programs:

Unmodified

Internal control over major programs:

- Significant deficiency(ies) identified? ☐ Yes ☒ No
- Material weakness(es) identified? ☒ Yes ☐ No

Dollar threshold used to distinguish a state major program:

\$150,000

SECTION II – FINANCIAL STATEMENT FINDINGS

The (***name of entity***) did not have any findings that relate to the financial statements.

SECTION III: STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding:	201x-001 Deadline for State Single Audit
State Agency:	Department of Public Safety
Grant Name:	Tactical Equipment for Local Law Enforcement
Grant Number:	17-DPS-9999 Award Year: 201x
Criteria:	2 AAC 45.010(b) states an entity that expends a cumulative total of \$750,000 or more shall submit an audit report for the audit period by... the earlier of 30 days after the entity receives its audit report for the audit period; or nine months after the end of the audit period” or a later date agreed upon in writing and advance of the date in this section.
Condition:	The organization did not engage a qualified audit firm within the required timeline to complete and submit the audit in a timely manner.
Questioned Costs:	None noted.
Context:	The audit firm was engaged to perform an audit in accordance with the 2 AAC 45 more than nine months after the audit period.
Effect:	The organization is not in compliance with 2 AAC 45.010 (b)(1).
Cause:	The organization did not have controls in place to identify the requirements of the state single audit threshold.
Repeat Finding:	This is a repeat of finding 201X-xxx.
Recommendation:	The organization needs to adjust the accounting records timely, arrange for an annual audit and submit the reporting package within the guidelines as outlined in the State of Alaska single audit regulations.

CORRECTIVE ACTION PLAN

The *auditee* is responsible for follow-up and corrective action on all audit findings included in the current year's auditor's report. This extends to findings related to both the state major programs and the financial statements, which are required to be reported in accordance with GAGAS.

The *auditee* is required to prepare and submit, in a document separate from the auditor's Schedule of Findings and Questioned Costs, a corrective action plan that addresses each finding in the current year auditor's reports. The auditee **must** submit the Corrective Action Plan on auditee letterhead.

The Corrective Action Plan (see example on page 18) will contain adequate information for state agencies to evaluate and monitor the recipient's intended actions. As a part of the review process, state funding agencies may request additional information or clarification of the intended actions.

Corrective action plans must include the following elements:

- **Reference Numbers Required.** The Corrective Action Plan must include the unique reference number the auditor assigned to each audit finding(s) in the Schedule of Findings and Questioned Costs.
- **Actions Taken or Planned.** The auditee must describe actual or planned actions that will correct all deficiencies identified in the report, the name(s) of the contact person(s) responsible for the corrective action, and anticipated completion date.
- **Comments on Findings and Auditor's Recommendations.** The auditee must provide a statement of concurrence or non-concurrence with the findings and auditor's recommendations. If the auditee does not agree with a finding or recommendation, then the corrective action plan must include an explanation and specific reasons.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The *auditee* is required to prepare and submit - in a document separate from the auditor's Schedule of Findings and Questioned Costs - a schedule summarizing the status of all prior audit findings included in the prior audit's Schedule of Findings and Question Costs. (See example on page 19.) This summary must also include the status of findings from any previous audits, *if those findings were reported as unresolved in the prior year audit period*.

The *auditee's* Schedule of Prior Audit Findings will provide an update on the status of corrective actions taken on all prior audit findings and include the date when the finding(s) were resolved or the planned completion date for resolving the findings. The auditee **must** submit the Schedule of Prior Audit Findings on auditee letterhead.

Reference Numbers Required

The Summary Schedule of Prior Audit Findings must include the **unique** reference number the auditor assigned to the audit finding(s) in the prior audit's Schedule of Findings and Questioned Costs.

Name of Entity
EXAMPLE: CORRECTIVE ACTION PLAN
Year Ended December 31, 201x

Financial Statement Findings

Finding: 201x-001 Segregation of Duties

Name of Contact Person: Name, Title

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The accounting staff will become more involved in providing these controls.

Proposed Completion Date: February 1, 201x

State Award Findings and Questioned Costs

Finding: 201x-002 Late submission of financial reports

Name of Contact Person: Name, Title

Corrective Action: The program coordinator will be responsible for submitting quarterly and year-end financial reports within 15 working days of the quarter or year end.

Proposed Completion Date: The above procedure was implemented November 1, 201x.

Name of Entity
EXAMPLE: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 201x

Finding: 201x-001, Segregation of duties

This finding has been resolved. Duties have been separated as much as possible and alternative controls have been implemented to compensate for lack of separation.

Finding: 201x-002, Failure to reconcile bank accounts

This finding is still unresolved. It is repeated as finding 201x-001 for the year ended September 30, 201x.

Finding: 201x-003, Grant reimbursement not requested on a timely basis

This finding has been resolved. Grant reimbursements were requested on a timely basis during the year ended September 30, 201x.

ILLUSTRATIVE AUDITOR'S REPORTS

Examples of reports in this section are based on reports issued under generally accepted auditing standards, *Government Auditing Standards*, and the AICPA.

- **Example 1:** Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information – State or Local Governmental Entity
- **Example 2:** Unmodified Opinion on Consolidated Financial Statements Accompanied by Other Information - Not-For-Profit Entity
- **Example 3:** Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)
- **Example 4:** Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
(Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)
- **Example 5:** Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*
(Unmodified Opinion on Compliance for each Major State Program; No Material Weaknesses or Significant Deficiencies in Internal Control over Compliance Identified)
- **Example 6:** Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*
(Qualified Opinion on Compliance for one Major State Program; Unmodified Opinion on Compliance on Each of the other Major State Programs; Material Weaknesses and Significant Deficiencies in Internal Control over Compliance Identified)

Example 1: Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information — State or Local Governmental Entity^{1,2}

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Example, Alaska, as of and for the year ended June 30, 20x1, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*³, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

¹ Refer to the AICPA Audit and Accounting Guide *State and Local Governments* for additional guidance on reporting on a government's basic financial statements. In particular, appendix A to chapter 16 of that guide describes conditions that may make modifications of the standard report necessary and illustrates several of those modifications, such as reference to the work of other auditors.

² This illustration is based on a similar example in the Audit and Accounting Guide *State and Local Governments*. However, unlike the example in *State and Local Governments*, which assumes that the financial statement audit is performed only under generally accepted auditing standards, this illustration reflects the additional reporting when the financial statement audit is also performed in accordance with *Government Auditing Standards*. The supplementary information reporting in this illustration also presents the in-relation-to reporting on the schedule of state financial assistance.

³ For financial audits performed in accordance with *Government Auditing Standards*, chapters 1-4 of *Government Auditing Standards* apply.

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control⁴. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Example, Alaska, as of June 30, 20x1, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information⁵

Accounting principles generally accepted in the United States of America require that the *[identify the required supplementary information, such as management's discussion and analysis and budgetary comparison information]* on pages XX-XX and XX-XX be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the

⁴ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows:

In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

⁵ Generally accepted accounting principles for state and local government entities often require that the financial statements be accompanied by certain required supplementary information (RSI). This RSI paragraph, within the "Other Matters" section of the report, illustrates a situation where RSI is included, the auditor has applied the specified procedures, and no material departures from prescribed guidelines have been identified. If all of the RSI is omitted, the paragraph on RSI would be replaced with the following:

Management has omitted *[identify the missing RSI, such as management's discussion and analysis and budgetary comparison information]* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

For other situations in which some RSI is omitted and some is presented in accordance with prescribed guidelines, there are material departures from prescribed guidelines, specified procedures not completed, or there are unresolved doubts about whether the RSI is in accordance with prescribed guidelines, refer to the guidance in AU-C section 730, *Required Supplementary Information* (AICPA, *Professional Standards*) and the AICPA Audit and Accounting Guide *State and Local Governments*.

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information^{6 7}

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Example's basic financial statements. The [*identify accompanying supplementary information such as the combining and individual nonmajor fund financial statements and schedule of state financial assistance*⁸, as required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, and the other information, such as the introductory and statistical section] are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The [*identify accompanying supplementary information*] is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the [*identify accompanying supplementary information*] is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

⁶ This section, within the "Other Matters" section of the report, is intended to include the reporting on supplementary information (SI) when the auditor is engaged to provide an "in-relation-to" opinion on SI and also when explanatory language will be provided relating to other information (OI) when the auditor is disclaiming an opinion on the OI. This illustration provides example language for both SI and OI reporting. The caption provided in this illustration is one way an auditor could title the section. Alternatively, the auditor could title it "Supplementary and Other Information," "Supplementary Information" or "Accompanying Information."

⁷ This illustration assumes that the auditor has been engaged to provide an "in-relation-to" opinion on SI, the auditor is issuing an unmodified opinion on the financial statements, and the auditor has concluded that the SI is fairly stated, in all material respects, in relation to the financial statements as a whole. If there is no SI on which to report, the references to SI in these paragraphs would be deleted. If the auditor has issued an opinion other than unmodified on the financial statements, see the guidance in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*) and the AICPA Audit and Accounting Guide *State and Local Governments*. Additionally, the OI reporting contained within this section provides an example of explanatory language that the auditor may use to disclaim an opinion on OI. Note there is no required reporting on OI under AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*). If there is no OI contained in the document containing the audited financial statements or if the auditor chooses not to include the disclaimer, the references to OI in this section would be deleted. See AU-C section 720 and the AICPA Audit and Accounting Guide *State and Local Governments* for more information.

⁸ As noted in AU-C section 725, the date of the auditor's report on supplementary information in relation to the financial statements as a whole should not be earlier than the date on which the auditor completed the required procedures required by AU-C section 725. When a compliance audit performed in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, is performed after the financial statement audit, the required procedures on the schedule of state financial assistance may not be completed until after the date of the auditor's report on the financial statements. In this case, if the in-relation-to reporting on the schedule of state financial assistance is included in the financial statement report, the auditor would dual-date the financial statement report. The auditor may also consider including the in-relation-to reporting on the schedule of state financial assistance in a separate report or in the auditor's reporting issued to meet the requirements of the *Audit Guide and Compliance Supplement for State Single Audits*.

The [*identify accompanying other information*] has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurances on it.

Other Reporting Required by Government Auditing Standards⁹

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] on our consideration of the City of Example's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.¹⁰ The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Example's internal control over financial reporting or on compliance.¹¹ That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Example's internal control over financial reporting and compliance.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

⁹ Paragraph .37 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), provides that the section related to an auditor's other reporting responsibilities should be subtitled "Report on Other Legal and Regulatory Requirements" or otherwise, as appropriate to the contents of the section. An example of an alternative title describing the reporting required by *Government Auditing Standards* is illustrated here.

¹⁰ Paragraph 4.07 discusses noncompliance and other matters - that is, certain fraud and abuse - for which *Government Auditing Standards* requires reporting in the auditor's report.

¹¹ This sentence should be modified if the auditor is providing an opinion on internal control over financial reporting or on compliance in the *Government Auditing Standards* report.

Example 2: Unmodified Opinion on Consolidated Financial Statements Accompanied by Other Information — Not-for-Profit Entity^{12, 13}

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Example NFP, which comprise the consolidated statement of financial position as of June 30, 20x1, and the related consolidated statements of activities, and cash flows¹⁴ for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,¹⁵ issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that

¹² Refer to the AICPA Audit and Accounting Guide *Not-for-Profit Entities* for additional guidance on reporting on the financial statements of a not-for-profit entity. In addition to the situations discussed in that guide, auditors may need to modify the report on the financial statements to refer to the work of other auditors, using the guidance in AU-C section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (AICPA, *Professional Standards*).

¹³ This illustration is based on a similar example in the Audit and Accounting Guide *Not-for-Profit Entities*. However, unlike the example in *Not-for-Profit Entities*, which assumes that the financial statement audit is performed only under GAAS, this illustration reflects the additional reporting when the financial statement audit is also performed in accordance with *Government Auditing Standards*. Additionally, the supplementary information reporting in this illustration reflects the in-relation-to reporting on the schedule of state financial assistance.

¹⁴ Each of the statements presented, which may include a statement of functional expenses, should be identified in the introductory paragraph. Paragraph .A23 of AU-C section 700 notes that the identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

¹⁵ See footnote 3.

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁶ Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Example NFP as of June 30, 20x1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information^{17,18}

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The *[identify accompanying supplementary information such as the schedule of state financial assistance*¹⁹, *as required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits]* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

¹⁶ See footnote 4.

¹⁷ This section, within the "Other Matters" section of the report, is intended to include the reporting on supplementary information (SI) when the auditor is engaged to provide an "in-relation-to" opinion on SI and also when explanatory language will be provided relating to other information (OI) when the auditor is disclaiming an opinion on the OI. This illustration assumes that the only information that accompanies the financial statements is the schedule of state financial assistance and that the auditor is providing an "in-relation-to" opinion on it. Example 1 provides illustrative wording that can be incorporated into this illustration when other information also accompanies the financial statements. The caption provided in this illustration is one way an auditor could title the section. Alternatively, the auditor could title it "Supplementary and Other Information," "Supplementary Information," or Accompanying Information."

¹⁸ If there is no SI on which to report, these paragraphs would be deleted. If the auditor has issued an opinion other than unmodified on the financial statements, see the guidance in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*) and AICPA Audit and Accounting Guide *State and Local Governments*.

¹⁹ See footnote 8.

Other Reporting Required by Government Auditing Standards²⁰

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] on our consideration of Example NFP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.²¹ The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Example NFP's internal control over financial reporting or on compliance.²² That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Example NFP's internal control over financial reporting and compliance.

[Auditor's signature]

[Auditor's city and state]

[Date of the Auditor's report]

²⁰ See footnote 9.

²¹ See footnote 10.

²² See footnote 11.

Example 3: Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (for a Governmental Entity)²³

(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States²⁴, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity, as of and for the year ended June 30, 20x1, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements, and have issued our report thereon dated August 15, 20x1.²⁵

Internal Control over Financial Reporting^{26, 27}

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our

²³ This illustration assumes that Example Entity is a governmental entity. If Example Entity is a not-for-profit entity, the wording in the first paragraph of this report should be modified using the following wording. Additionally, the first sentence under the heading "Internal Control over Financial Reporting" would be revised to refer to "our opinion" instead of "our opinions."

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Example Entity, which comprise the consolidated statement of financial position as of June 30, 20x1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20x1.

²⁴ See footnote 3. Additionally, if the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this paragraph.

²⁵ If the auditor expressed a modified opinion on the financial statements (that is, a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

²⁶ *Government Auditing Standards* permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed.

²⁷ This report sequences the reporting on internal control over financial reporting before the reporting on compliance and other matters. Auditors may present the internal control and compliance sections of the report in whichever sequence better meets their needs.

opinions²⁸ on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters^{29, 30}

As part of obtaining reasonable assurances about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

²⁸ See footnote 23.

²⁹ *Other matters* are certain findings of fraud or abuse. As per industry practice, the reference to "other matters" in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

³⁰ Paragraph 4.26 of *Government Auditing Standards* notes that when auditors detect instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.³¹

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]³²

³¹ This paragraph conforms to paragraph .11 of AU-C section 905, *Alert that Restricts the Use of the Auditor's Written Communication* (AICPA Professional Standards), which provides for a "purpose" alert in lieu of a "restricted use" alert for certain communications issued under *Government Auditing Standards*. See AU-C section 905 for additional guidance.

³² Because this report relates to an engagement to audit the financial statements, and is based on the GAAS audit procedures performed, it is subject to the provisions of AU-C section 700. Therefore, it should be dated the same date as the auditor's report on the financial statements, which according to paragraph .41 of AU-C section 700 is "no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements."

Example 4: Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (for a Governmental Entity)³³

(Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States,³⁴ the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity as of and for the year ended June 30, 20x1, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements, and have issued our report thereon dated August 15, 20x1.³⁵

Internal Control Over Financial Reporting^{36, 37}

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions³⁸ on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control 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. We consider the deficiencies described in the

³³ See footnote 23.

³⁴ See footnote 24.

³⁵ See footnote 25.

³⁶ See footnote 26.

³⁷ See footnote 27.

³⁸ See footnote 23.

accompanying schedule of findings and questioned costs as items to be material weaknesses. *[List the reference numbers of the related findings, for example, 20x1-001, 20x1-003, and 20x1-004].*

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items to be significant deficiencies. (List the reference numbers of the related findings, for example, 20x1-002 and 20x1-005.)]

Compliance and Other Matters^{39, 40}

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example 20x1-002 and 20x1-005].*

Example Entity's Response to Findings

Example Entity's response to the findings identified in our audit is described in the accompanying corrective action plan. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.⁴¹

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.⁴²

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]⁴³

³⁹ See footnote 29.

⁴⁰ See footnote 30.

⁴¹ Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the view of responsible officials under *Government Auditing Standards*. As noted in paragraph 4.33 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

⁴² See footnote 31.

⁴³ See footnote 32.

Example 5: Report on Compliance for Each Major State Program; Report on Internal Control over Compliance and Report on the Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

(Unmodified Opinion on Compliance for each Major State Program; No Material Weaknesses or Significant Deficiencies in Internal Control over Compliance Identified¹)

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Each Major State Program

We have audited Example Entity's compliance with the types of compliance requirements² described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect³ on each of Example Entity's major state programs for the year ended June 30, 20x1. Example Entity's major state programs are identified in the accompanying schedule of state financial assistance.⁴

¹ Examples 5 and 6 in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits (Guide)* are intended to provide illustrations for various situations. Auditors, using professional judgment, may adapt these examples to other situations not specifically addressed within the illustrations.

² The auditor's determination of whether a noncompliance with the state statutes, regulations, or the terms and conditions of state awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the State of Alaska's *Compliance Supplement for State Single Audits (Compliance Supplement)*. Further, the auditor's determination of whether a deficiency in internal control over compliance is a significant deficiency or material weakness for the purpose of reporting an audit finding is also in relation to a type of compliance requirement for a major state program or an audit objective identified in the *Compliance Supplement for State Single Audits*. The reference to "type of compliance requirements" used here and elsewhere in this report illustration refers to the 10 types of compliance requirements described in the "General Compliance Requirements" section of the *Compliance Supplement*.

³ AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*), defines *applicable compliance requirements* as the compliance requirements that are subject to the compliance audit. According to the "Auditor's Reports" section of the *Guide*, the auditor's report on compliance with state statutes, regulations, and the terms and conditions of state awards must include an opinion (or disclaimer of opinion) regarding whether the auditee complied with state statutes, regulations, and the terms and conditions of state awards could have a direct and material effect on each major program. Therefore, in a compliance audit performed in accordance with the *Guide*, the *applicable compliance requirements*, as the term is used in AU-C section 935, are those that could have a direct and material effect on a major state program. Accordingly, for the purpose of adapting AU-C section 935 to a compliance audit in accordance with the State of Alaska's *Guide*, the term *applicable* has been replaced by *direct and material* when referencing such compliance requirements in this report.

⁴ There are situations in which the audit of state awards may not encompass the entirety of the auditee's operations. In this case, the operations that are not included should be identified in a separate paragraph following the first paragraph of the report. An example of such a paragraph follows:

Example Entity's basic financial statements include the operations of the [identify organizational unit, such as a component unit or department], which expended [include dollar amount] in state awards which is not included in Example Entity's schedule of state financial assistance during the year ended June 30, 20x1. Our audit, described below, did not include the operations of [identify organizational unit] because [state the reason for the omission, such as the organizational unit engaged other auditors to perform an audit of compliance].

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Example Entity's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Example Entity's compliance.

Opinion on Each Major State Program

In our opinion, Example Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 20x1.

Other Matters⁵

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20x1-001 and 20x1-002].⁶ Our opinion on each major state program is not modified with respect to these matters.

Example Entity's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. Example Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.⁷

⁵ When there are no findings that are required to be reported, this "Other Matters" section of the report would be omitted.

⁶ The auditor may also consider adding a table to this section of the report to more clearly communicate the other findings that are being reported and the programs and requirements to which they relate.

⁷ Although the auditor does not audit management's response to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 4.33 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

Report on Internal Control over Compliance⁸

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Example Entity's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.⁹

⁸ This example and Example 6 illustrate combined reports that also include the reporting on internal control over compliance. If an auditor prefers to issue a separate report on internal control over compliance, this section would be omitted from the report. AU-C section 935 includes required elements for separate reporting on internal control over compliance.

⁹ This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication* (AICPA, *Professional Standards*) to relate to the reporting on internal control over compliance that is required in an audit of compliance in accordance with the *Guide*.

Report on Schedule of State Financial Assistance required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*^{10, 11}

We have audited the financial statements of Example Entity as of and for the year ended June 30, 20x1, and have issued our report thereon dated August 15, 20x1, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally

[Continued on next page]

¹⁰ The wording of this report is based on AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*).

¹¹ This guide recommends reporting on the schedule of state financial assistance in the report on the financial statements. However, there may be certain circumstances when the auditor's report on the schedule is incorporated into the report issued to meet the requirements of the *Guide*. Therefore, this example and Example 6 illustrate the inclusion of the auditor's in-relation-to reporting on the schedule of state financial assistance. Its inclusion in these examples is not intended to imply a best practice. If the in-relation-to reporting on the schedule is included in the report on the financial statements or in a separate report, this section would be omitted.

accepted in the United States of America. In our opinion, the schedule of state financial assistances is fairly stated in all material respects in relation to the financial statements as a whole.¹²

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]¹³

¹² The wording of this report on the schedule of state financial assistance refers to the financial statements of a non-governmental entity. For audits of governmental entities, it would be replaced with the following:

Report on Schedule of State Financial Assistance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity as of and for the year ended June 30, 20x1, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements. We issued our report thereon dated August 15, 20x1, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

¹³ As noted in footnote 11, this example and Example 6 illustrate the inclusion of the in-relation-to opinion on the schedule of state financial assistance. AU-C section 725 states that the date of the auditor's report on supplementary information (for example, the schedule of state financial assistance in these illustrations) in-relation-to the financial statements as a whole should not be earlier than the date on which the auditor completed the procedures required by AU-C section 725. Therefore, when the required procedures in AU-C section 725 are completed on an earlier date than that of the auditor's "Report on Compliance for Each Major State Program," the auditor would dual-date this report. Illustrative wording when dual dating the report is as follows:

[Date], except for our report on the Schedule of State Financial Assistance, for which the date is [Date the in-relation-to procedures completed]

Example 6: Report on Compliance for Each Major State Program; Report on Internal Control over Compliance and Report on the Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

(Qualified Opinion on Compliance for one Major State Program; Unmodified Opinion on Compliance on Each of the Other Major State Programs; Material Weaknesses and Significant Deficiencies in Internal Control over Compliance Identified)¹⁴

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Each Major State Program

We have audited Example Entity's compliance with the types of compliance requirements¹⁵ described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect¹⁶ on each of Example Entity's major state programs for the year ended June 30, 20x1. Example Entity's major state programs are identified in the accompanying schedule of state financial assistance.¹⁷

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Example Entity's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major state program. However, our audit does not provide a legal determination of Example Entity's compliance.

¹⁴ See footnote 1.

¹⁵ See footnote 2.

¹⁶ See footnote 3.

¹⁷ See footnote 4.

Basis for Qualified Opinion on [Identify Major State Program]^{18, 19}

As described in the accompanying schedule of findings and questioned costs, Example Entity did not comply with requirements regarding *[identify the major state program and associated finding number(s); for example, Rural Energy Program as described in finding numbers 20x1-001 and 20x1-002]*. Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with the requirements applicable to that program.

Qualified Opinion on [Identify Major State Program]

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Example Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on *[identify the major state program]* for the year ended June 30, 20x1.

Unmodified Opinion on Each of the Other Major State Program²⁰

In our opinion, Example Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major state programs identified in the schedule of state financial assistance for the year ended June 30, 20x1.

Other Matters²¹

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and which are described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example, 20x1-001 and 20x1-002]*.²² Our opinion on each major state program is not modified with respect to these matters.

Example Entity's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. Example Entity's response was not subjected to the

¹⁸ The heading to this section, and the qualified opinion paragraph that follows, illustrates identifying the specific major state programs being referred to in each heading.

¹⁹ The auditor may also consider adding a table to more clearly communicate the basis for the qualified opinion, such as the following:

As described in Findings 20x1-001 and 20x1-002 in the accompanying schedule of findings and questioned costs, Example Entity did not comply with requirements regarding the following:

Finding #	Program Name	Compliance Requirement
20x1-001	Rural Energy Programs	Contractor's Bonds
20x1-002	Rural Energy Programs	Retention & Inspection of Records

Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with the requirements applicable to that program.

²⁰ There is nothing to preclude an auditor from including the name(s) of the state programs for which the auditor is providing an unmodified opinion in this heading or in the opinion paragraph itself. This example illustrates referencing the other major state programs more generally in the unmodified opinion heading and in the opinion paragraph, along with a reference to the schedule of state financial assistance where the other major state programs are specifically identified.

²¹ When there are no "other instances of noncompliance" that are required to be reported, the first paragraph in the "Other Matters" section of the report would be omitted. However, when there are compliance findings referred to elsewhere in the report, the second paragraph and the "Other Matters" subheading would be retained.

²² See footnote 6.

auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.²³

Report on Internal Control over Compliance²⁴

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Example Entity's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example 20x1-005 and 20x1-006]*²⁵ to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example 20x1-007 and 20x1-008]*²⁶ to be significant deficiencies.

²³ See footnote 7.

²⁴ See footnote 8.

²⁵ See footnote 6.

²⁶ See footnote 6.

Example Entity's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. Example Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.²⁷

Report on Schedule of State Financial Assistance required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*^{28, 29}

We have audited the financial statements of Example Entity as of and for the year ended June 30, 20x1, and have issued our report thereon dated August 15, 20x1, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of state financial assistances is fairly stated in all material respects in relation to the financial statements as a whole.³⁰

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]³¹

²⁷ See footnote 9.

²⁸ See footnote 10.

²⁹ See footnote 11.

³⁰ See footnote 12.

³¹ See footnote 13.

SECTION 4 - SUBMITTING SINGLE AUDITS

WHERE TO SEND AUDITS

Centralized Collection of Audits: The department provides the service of collecting and reviewing audits required from grantees. This includes **state single audits** for state financial assistance and **federal single audits** for recipients of federal pass-through assistance distributed by a state agency.

Send Audit Packages to: Single Audit Coordinator
State of Alaska, Department of Administration
Division of Finance
P.O. Box 110204
Juneau, AK 99811-0204

WHAT TO SUBMIT FOR A COMPLETE REPORTING PACKAGE

Be sure to include the audited financial statements and all applicable items of a complete reporting package as described on page nine. See the following page for a list of state agencies that would be included on the Schedule of State Financial Assistance.

Number of Copies:

State Single Audit Only (No Federal Single Audit was done)	Federal Single Audit Only (No State Single Audit was done)	Both a Federal <u>and</u> a State Single Audit was done on your organization
• 1 copy for EACH State of Alaska agency listed on the Schedule of State Financial Assistance AND • 1 copy for the single audit coordinator	• In most cases, for audits after 12/31/2015, we can obtain the audit copy from the Federal Single Audit Clearinghouse; • Otherwise, we'll be in touch	• 1 copy for EACH State agency listed on <u>either</u> the Schedule of Expenditures of Federal Awards or Schedule of State Financial Assistance AND • 1 copy for the single audit coordinator

Note: School districts have an additional requirement to send a complete reporting package, including management letter, directly to Department of Education & Early Development.

After receipt and review of the **complete reporting package**, the single audit coordinator's office will distribute the audit package to the appropriate state funding agencies.



If you have questions, please contact the Single Audit Coordinator at (907) 465-4666.

CENTRALIZED MONITORING OF STATE OF ALASKA AGENCIES

State assistance from **all** state agencies – including component units - is subject to the single audit requirements of 2 AAC 45, unless excluded by 2 AAC 45.010(m) or exempt under 2 AAC 45.080. The following is a listing of State of Alaska agencies that receive centralized single audit monitoring services from the State of Alaska's Single Audit Coordinator's office. Please refer to the compliance supplements in this **Guide** for more detailed information on individual programs and their audit requirements.

- Alaska Court System
- Alaska Energy Authority (AEA)
- Alaska Housing Finance Corporation (AHFC)
- Alaska Mental Health Trust Authority (AMHTA)
- Alaska State Council on the Arts (ASCA)
- Department of Administration (DOA)
- Department of Commerce, Community, and Economic Development (DCCED)
- Department of Corrections
- Department of Education & Early Development (DEED)
- Department of Environmental Conservation (DEC)
- Department of Fish & Game (DFG)
- Department of Health & Social Services (DHSS)
- Department of Labor & Workforce Development (DLWD)
- Department of Law (LAW)
- Department of Military & Veterans Affairs (DMVA)
- Department of Natural Resources (DNR)
- Department of Public Safety (DPS)
- Department of Revenue (DOR)
- Department of Transportation & Public Facilities (DOTPF)
- Surplus Property (Department of Administration, Shared Services of Alaska)

Any component unit **not on this list** will perform its own single audit monitoring. Questions regarding their assistance programs should be addressed directly to that component unit.

Questions regarding state assistance and the application or interpretation of 2 AAC 45 should be directed to the Single Audit Coordinator at (907) 465-4666.

SECTION 5 - QUESTIONS AND ANSWERS

This section is designed to clarify issues or requirements of the state single audit.

1. **Will state agencies withhold money from their awards to cover the cost of a single audit, or should the recipient do this?**

Answer: State agencies are not responsible for withholding money for the cost of a single audit. Recipients of state financial assistance are responsible for the budgeting and payment of audit services.

2. **How will recipients know if they should plan for the cost of a single audit before the end of the fiscal year?**

Answer: It is important to continuously track receipt and expenditure of state financial assistance and federal pass-through funds. The recipient should budget for an audit. Then, if it becomes clear that the audit is not necessary, the money can be used as otherwise allowed in the grant agreements.

3. **What money can be used to pay the cost of a state single audit?**

Answer: Audit costs are legitimate costs of administering state financial assistance. Audit costs can be direct or indirect costs depending on the award agreement or policies established by the state granting agency. It is important that audit costs be fully documented. Costs apportioned to state programs need to be supported with schedules or other documentation showing how the allocation was applied. Generally, auditors will evaluate the reasonableness of that allocation.

4. **How will recipients that have not budgeted for the single audit costs pay for it?**

Answer: Planning ways to meet audit expenses is an important element in good business management. The recipient of state financial assistance that has not earmarked money for an audit will have to absorb the payment from other unrestricted funds. **Failure to set aside money to pay for audits is not a valid excuse for failing to have an audit performed.**

5. **What if an audit is not completed within nine months after fiscal year end?**

Answer: You may contact the single audit coordinator prior to the nine-month due date to request an extension. The single audit coordinator will review the request, the history of the grantee in submitting timely audit packages, and other relevant facts. The single audit coordinator's office will notify the recipient, applicable state agencies and CPA firm, if provided, whether the extension request was granted or denied.

6. What is the penalty for noncompliance or not conducting the single audit?

Answer: The state single audit regulation does not establish any penalties aside from the penalties already established in law, regulation, or specifically in an award agreement. State agencies will view noncompliance as potential evidence that the recipient may not be able to properly administer awards. This could affect future awards.

7. Are all certified public accountants qualified to perform an audit under 2 AAC 45.010?

Answer: 2 AAC 45 requires an audit to be conducted by an independent auditor according to ***Government Auditing Standards***; which requires auditors to have continuing professional education related to government auditing requirements and auditing organizations to have an external quality control (peer) review. Grantees having an audit under 2 AAC 45 should ensure, prior to contracting with the firm, that the prospective audit firm has a current CPA license and satisfies the peer review requirements.

8. How do I submit a state single audit?

Answer: For submission information, see page 42 – Submitting Single Audits.

9. How many copies of single audits need to be submitted?

Answer: See page 42 - Submitting Single Audits.

10. Must the corrective action plan address financial statement findings required to be reported by *Government Auditing Standards*?

Answer: Yes. State single audit regulations require that written comments be provided on all findings contained in the audit report.

11. If an auditee does not have any noncompliance to be reported, does a Schedule of Findings and Questioned Costs have to be included in the reporting package for a state single audit?

Answer: Yes.

12. A state single audit is not required of the current year. The prior year state single audit contained audit findings. Do the prior year findings need to be addressed in the current year audit?

Answer: No. The affected state agency(s) will continue to work directly with the grantee on the resolution of the prior year findings.

13. Do school districts reports have any special submission requirements?

Answer: Yes. School districts should follow the guidelines on page 42, for submitting single audits; with the additional requirement of sending a copy of the reporting package to the Commissioner of the Department of Education and Early Development.

AS 14.14.050 requires the school board of each school district to send a copy of their audit report and management letter to the Commissioner of Education and Early Development by November 15.

Send the Commissioner of Education and Early Development's copy to:

Alaska Department of Education & Early Development

Education Support Services

Attn: Alenita Danner

801 West 10th Street, Suite 200

P.O. Box 110500

Juneau, AK 99811-0500

E-mail: alenita.danner@alaska.gov

14. How does the state determine if an audit meets audit standards?

Answer: The single audit coordinator's office will review audit reports for conformance with professional standards; inclusion of required opinions, reports, and schedules; timely completion; and sufficient number of copies. Audit reports will be forwarded to each state agency that granted financial assistance, for review to ensure all awards were included; findings are clear and understandable; planned corrective actions appear adequate and management decision letters are issued.

15. If an audit report is found deficient, what procedures will be used to notify the parties involved; and who will resolve the issues?

Answer: The single audit coordinator's office will notify the grantee (copy to the auditor and applicable granting agencies) of a deficient reporting package within four weeks of receipt of the audit. Within 30 days of this notification, the entity is required to provide the requested information and/or documents.

If a revision or further information is required by the auditors, the notification will be sent to the auditor with a copy sent to the grantee and applicable granting agencies. The auditor will have 30 days to submit revised reports or other requested information.

Audits are not in compliance with the timely submission requirement of the single audit regulation until deficiencies are resolved. The grantee should maintain contact with the state funding agency(s) and the single audit coordinator's office while deficiencies are being resolved.

The single audit coordinator's office will mediate disagreements between the auditor, grantee, and the state funding agency(s).

16. What is an entity's responsibility when awarding a subrecipient(s) an amount equal to or greater than the audit threshold?

Answer: The original entity receiving state financial assistance is responsible for ensuring that third parties comply with the state single audit requirements. The entity is required to provide the subrecipient with specific information regarding the award and its requirements. The entity must have an effective system for monitoring the subrecipient. As applicable, the entity must ensure that appropriate corrective action is taken within six months after disclosure of a third party's noncompliance with state statute or regulation, or financial assistance agreement.

17. Are auditors required to evaluate the entity's system for monitoring subrecipient compliance with 2 AAC 45.010?

Answer: Yes.

18. Are private firms contracted to provide products such as office furnishings considered third party subrecipients subject to the single requirements?

Answer: No.

19. What is the difference between a subrecipient and a vendor?

Answer: A **subrecipient** is an entity that receives state financial assistance passed through from the original recipient. The subrecipient is responsible to meet the requirements of the assistance program.

A **vendor** is an entity that receives a procurement contract for goods or services from a recipient. Vendor contracts are usually a result of a competitive bidding process. A vendor's responsibility is to meet the requirements of the procurement contract.

20. What is the determining factor in deciding whether a third party is a subrecipient or a vendor?

Answer: The test for a subrecipient relationship is whether the organization receives state financial assistance to carry out a program.

21. Are contracts or agreements negotiated between the state and local governments, such as Transfer of Responsibility Agreements, included under single audit requirements?

Answer: Yes, provided the local government has met the audit threshold specified in the single audit regulation.

22. We understand that federal financial assistance includes loans and loan guarantees. Are loans under state programs categorized as state financial assistance and subject to audit?

Answer: No.

23. How do entities determine state major programs when their fiscal year has a different yearend than the state?

Answer: Major program and audit thresholds are based on the entity's fiscal year.

24. When an entity changes its yearend, how should it treat the stub period for purposes of the state single audit?

Answer: A state single audit of the stub period is required if the stub period is six months or longer, or if it was audited by itself. If the stub period is less than six months and not audited separately, it should be included in the succeeding year's single audit.

25. Are auditors required to do compliance testing for financial assistance programs that are excluded from the state single audit threshold computations?

Answer: Yes, if such programs are determined to be major state programs. The exclusion applies only for the audit threshold computation, not compliance testing.

26. If the compliance supplement does not contain requirements for a program, does that mean this program does not need to be audited for compliance?

Answer: No. The auditor should determine compliance requirements from the award document, and applicable laws and regulations. Auditors can contact the agency representatives indicated on page 57, Single Audit Contacts.

27. What requirements apply to federal pass-through money?

Answer: Federal pass-through money received from state agencies remains classified as federal financial assistance. Federal compliance and audit requirements apply to this money. The requirements for federal single audits are contained in the Single Audit Act Amendments of 1996 and the Uniform Grant Guidance, 2 CFR Part 200.

28. What are the federal audit and major program thresholds?

Answer: The Uniform Grant Guidance, 2 CFR Part 200 changed the federal audit threshold for fiscal years beginning on or after December 26, 2014 as follows:

- **Audit Threshold** - A recipient of federal awards that expends a cumulative total equal to or greater than \$750,000 during the entity's fiscal year is required to submit a federal single audit
- **Major Federal Programs** - Major federal programs are determined on a risk-based approach. The risk-based approach includes consideration of current and prior audit experience; oversight by federal agencies and pass-through entities; and the inherent risk of the federal program. The determination is subject to a variety of exceptions and limitations described in 2 CFR Part 200.

29. On which schedule should federal pass-through money be shown?

Answer: Only on the Schedule of Expenditures of Federal Awards. Federal funds passed through the State of Alaska should be clearly identified on the federal schedule by both federal and state agencies.

30. A state single audit was not required, but a federal single audit was required. Should the federal single audit be submitted to the single audit coordinator's office?

Answer: Yes. If the recipient expended federal financial assistance passed through the State of Alaska during the audit period, and a federal single audit was performed (no state single audit was necessary), a copy of the audit must be provided to the single audit coordinator's office. This can be accomplished either through the Federal Single Audit Clearinghouse, when a copy of the entire audit is made publicly available; or by submitting hardcopies to the audit report to the State. See page 42, Submitting Single Audits.

31. Does the single audit coordinator's office need a copy of the Data Collection Form SF-SAC?

Answer: No. This is a federal form required to be submitted with audit reporting packages sent directly to the U.S. Bureau of the Census. For further information, go to the federal clearinghouse website:

<https://harvester.census.gov/facweb/>

32. How can recipients keep the kind of accounting and other records necessary to comply with the requirements under the single audit regulation and financial assistance agreements?

Answer: Sound business practices require that documentation be created and retained. These extremely important records can demonstrate to an external reviewer/auditor that claimed expenditures complied with the terms of a financial assistance agreement. This documentation could include - but is not limited to - such things as approved timesheets, vendor invoices, canceled checks, periodic financial and program reports, and an accounting system that adequately identifies costs to programs.

Recipients of state financial assistance are responsible for keeping organized records. It is not the responsibility of the auditor to organize the recipient's financial records. Poorly organized financial records increase audit costs.

Experience has shown that one of the most frequent problems reported in state single audits is lack of supporting documentation. When supporting documents cannot be produced, auditors usually report "questioned costs." **State agencies may take actions to recover questioned costs from recipients.**

33. What are “questioned costs?”

Answer: Auditors report expenditures that may not be allowable charges to state programs as “questioned costs.” State agencies determine whether charges will be allowed. Questioned costs usually fall in one of five categories:

- **Unallowable** - Costs specifically not allowed under the general and specific requirements or conditions of a program.
- **Ineligible** - Costs which would otherwise be allowable except the amounts involved were paid on behalf of an individual who is not eligible.
- **Undocumented** - Costs for which detailed documentation does not exist.
- **Unapproved** - Costs for which the program requires approval and the auditor cannot find evidence of approval, or costs not provided for in an approved budget.
- **Unreasonable** - Costs incurred that may not reflect the actions of a prudent person, or the assignment of an unreasonably high valuation to in-kind contributions.

SECTION 6 - REPRINT OF 2 AAC 45

Alaska Administrative Code Title 2 Administration Chapter 45. Grant Administration

<u>Section</u>	<u>Section</u>
10. Audit requirements	80. Exemptions from financial assistance
60. (Repealed)	85. Waiver of audit requirements
70. Applicability	90. Definitions

2 AAC 45.010. AUDIT REQUIREMENTS.

(a) A state agency that enters into a financial assistance agreement to provide financial assistance to an entity shall, in coordination with any other state agencies providing financial assistance to that entity, require that entity to submit to the department an audit of the recipient entity if that entity is subject to an audit under this section. The audit must be conducted and submitted as described in this section. In order to ensure compliance with this subsection, a state agency must include the audit requirements of this section in any financial assistance agreement subject to this subsection.

(b) An entity that expends financial assistance with a cumulative total of \$750,000 or more during the entity's fiscal year shall submit an audit report for the audit period to the department, by

- (1) the earlier of
 - (A) 30 days after the entity receives its audit report for the audit period; or
 - (B) nine months after the end of the audit period; or
- (2) a later date than the date calculated under (1) of this subsection, if
 - (A) the state agency that provides the financial assistance agrees to the change of date; and
 - (B) the agreement under (A) of this paragraph is made in
 - (i) writing; and
 - (ii) advance of the date calculated under (1) of this subsection.

(c) An audit required by this section must be conducted by an independent auditor, according to the following audit standards effective at the time of review for the audit period:

- (1) *Government Auditing Standards*, 2011 Revision, adopted by the comptroller general of the United States, and adopted by reference;
 - (2) generally accepted auditing standards, as accepted by the American Institute of Certified Public Accountants in the *Codification of Statements on Auditing Standards*, January 2017 revision for the type of entity being audited, adopted by reference;
 - (3) *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, May 2017 revision, prepared by the department, adopted by reference.
- (d) The audit required under this section must report on the following:
- (1) the system of internal controls of the entity and the auditor's identification of significant deficiencies and material weaknesses of the entity, using the applicable standards set out in (c) of this section;

- (2) the entity's compliance with applicable state statutes and regulations and applicable financial assistance agreements affecting the expenditure of the financial assistance; the report must identify findings and known questioned costs that exceed \$5,000 in the aggregate for all transactions of expenditures tested for the financial assistance being audited;
- (3) the entity's financial statements;
- (4) the schedule of state financial assistance;
- (5) the schedule of findings and questioned costs.

(e) As part of the audit report required under this section, the entity must provide

- (1) written comments on any
 - (A) findings;
 - (B) known questioned costs;
 - (C) significant deficiencies, including material weaknesses; and
 - (D) recommendations contained in the audit report;
- (2) the entity's plan for corrective action, if any findings are identified or any recommendations are made in the audit report;
- (3) the status of the entity's implementation of any plans for corrective actions related to
 - (A) the audit reports required under this section for the fiscal year before the audit period; and
 - (B) unresolved findings of audit reports required by this section for audit periods before those specified in (A) of this paragraph; and
- (4) a written explanation of the reasons why corrective action will not be taken if the entity does not intend to take corrective action on the findings and recommendations in any audit report required by this section.

(f) An audit report required under this section need not evaluate the effectiveness of a program funded by financial assistance. However, a program evaluation or financial monitoring may be conducted by the state agency or requested of the entity by the state agency that entered into the financial assistance agreement.

(g) An audit required by this section must cover the entire operations of the entity.

(h) An entity shall provide the department with sufficient copies of each audit report to allow submission of a copy to each state agency providing financial assistance to the entity. The department will determine if auditing standards have been met and will forward a copy of the audit to the appropriate state agencies. The department will coordinate the assignment of the resolution to one state agency, if the exceptions concern more than one state agency. The applicable state agency providing financial assistance to the entity must meet its responsibilities under other law for ensuring compliance with the audit report.

(i) Unless additional audit requirements are imposed by state or federal law, a state agency that provides financial assistance to an entity shall accept the audit required by this section in satisfaction of any other audit requirement. If additional audit work is necessary to meet the needs of a state agency, the audit work must be based on the audit required by this section. Nothing in this subsection authorizes a state agency to seek payment from the entity for the additional audit work.

(j) A third party that receives financial assistance through an entity, in an amount described in this section, is subject to the applicable requirements of this section. An entity that disburses \$750,000 or more in state financial assistance to a third party shall ensure that the third party complies with the requirements of this section. That entity shall also ensure that appropriate corrective action is taken within six months after a third party's noncompliance with an applicable state statute or regulation, or financial assistance agreement, is disclosed.

(k) Repealed 07/01/98.

(l) For purposes of this section, if an entity has not identified its fiscal year, that entity's fiscal year is July 1 through June 30.

(m) Financial assistance in the following form is not included when calculating whether an entity meets the threshold monetary requirement under (b) of this section:

- (1) community revenue sharing money provided under AS 29.60.850 – 29.60.879;
- (2) repealed 3/31/2008;
- (3) aviation fuel tax money provided under AS 43.40.010;
- (4) electric and telephone cooperative gross revenue tax refunds provided under AS 10.25.570;
- (5) alcoholic beverage license fee refunds provided under AS 04.11.610;
- (6) fisheries tax refunds provided under AS 29.60.450, AS 43.75.130, and AS 43.77.060;
- (7) PERS/TRS relief funding under money appropriated to pay employer unfunded liability attributable to the entity under AS 14.25 and AS 39.35.
- (8) money expended for projects that are solely managed, supervised, and controlled by the Alaska Energy Authority under AS 44.83 and turned over to the grantee at the conclusion of the project.

(n) Financial assistance in a form listed in (m) of this section is not exempt from compliance testing if the entity meets the threshold monetary requirement under (b) of this section.

(o) Repealed 7/1/98.

History: Eff. 8/1/85, Register 95; am 6/29/90, Register 114; am 7/1/98, Register 146; am 3/31/2008, Register 185; am 8/1/2008, Register 187; am 1/1/2011, Register 196; am 9/25/2013, Register 207; am 4/1/2017, Register 221; am 11/22/2017 Register 224
Authority: AS 37.05.020 AS 37.05.190

2 AAC 45.060. EXTERNAL QUALITY REVIEW OF AUDIT ORGANIZATION.

Repealed.

History: Eff. 7/1/98, Register 146; repealed 3/31/2008, Register 185

2 AAC 45.070. APPLICABILITY.

(a) The amended version of this chapter, effective November 22, 2017, applies to an audit for an audit period that begins or continues after November 22, 2017.

(b) An entity may agree to be subject to the provisions of the amended version of this chapter, effective November 22, 2017, for an audit period beginning on or after July 1, 2017 and ending on or before November 21, 2017, by voluntarily submitting

- (1) an audit that complies with those provisions; or
- (2) a statement that an audit is not required under the provisions of 2 AAC 45.010(b).

History Eff. 7/1/98, Register 146; am 3/31/2008, Register 185; am 8/1/2008, Register 187; am 1/1/2011, Register 196; am 9/25/2013, Register 207, am 4/1/2017, Register 221; am 11/22/2017, Register 224

Authority: AS 37.05.020 AS 37.05.190

2 AAC 45.080. EXEMPTIONS FROM FINANCIAL ASSISTANCE.

- (a) For purposes of this chapter, “financial assistance” does not include the following:
- (1) public assistance provided under AS 47;
 - (2) goods or services purchased for the direct administration or operation of state government;
 - (3) moneys advanced to an entity under one or more state loan programs;
 - (4) power cost equalization payments made to an electric cooperative on behalf of its customers;
 - (5) scholarships, loans, or other tuition aid provided to students, but paid to an education institution on their behalf.
- (b) In addition to the exemptions set out in (a) of this section, for a third party, “financial assistance” does not include goods purchased from the third party for direct administration or operation of the entity that received financial assistance.

History: Eff. 7/1/98, Register 146

Authority: AS 37.05.020 AS 37.05.190

2 AAC 45.085. WAIVER OF AUDIT REQUIREMENTS.

- (a) No later than 30 days after the due date of an entity’s audit, the entity may submit a written request to the commissioner under this section for a waiver of the requirements for an audit under 2 AAC 45.010 for good cause.
- (b) A written request submitted under this section must state the reasons for the request for waiver and good cause. Good cause exists under this section if
- (1) the financial assistance expended by the entity was under close state agency management and supervision;
 - (2) an audit will not likely promote the public interest because
 - (A) the audit will be duplicative of existing audited information;
 - (B) an alternative source of externally verified information from an independent source provides sufficient assurance that the financial assistance was expended properly.
- (c) For the purposes of this section, an entity’s lack of funding to purchase an audit is not good cause for waiver of an audit under this section.
- (d) No later than 30 days after receiving a written request for a waiver under this section, the commissioner will issue a written decision regarding the request for waiver. The written decision will document the basis for any grant or denial of waiver under this section. The commissioner’s decision will be mailed or delivered to the entity and will constitute the final administrative decision on the request.
- (e) In this section, “commissioner” means the commissioner of administration.

History: Eff. 1/1/2011, Register 196

Authority: AS 37.05.020 AS 37.05.190

2 AAC 45.090. DEFINITIONS.

For purposes of this chapter, unless the context otherwise requires,

- (1) “audit period” means the entity’s fiscal year in which the entity expended financial assistance;
- (2) “entity” does not include
 - (A) the University of Alaska or any other state agency;
 - (B) a for-profit entity; and
 - (C) a non-United States based entity;
- (3) “financial assistance” means state grants, contracts, provider agreements, cooperative agreements, and all forms of state financial assistance to an entity; “financial assistance” includes all forms of state financial assistance provided through an entity to a third party;
- (4) “known questioned costs” means those questioned costs specifically identified by the auditor in the audit conducted under this chapter;
- (5) repealed 3/31/2008;
- (6) “department” means the Department of Administration;
- (7) “significant deficiencies” has the meaning given in the *Codification of Statements of Auditing Standards* adopted by reference in 2 AAC 45.010(c).

History: Eff. 7/1/98, Register 146; am 3/31/2008, Register 185; am 4/1/2017, Register 221

Authority: AS 37.05.020 AS 37.05.190

SECTION 7 - COMPLIANCE SUPPLEMENT

COMPLIANCE SUPPLEMENT OVERVIEW

This section describes general and specific compliance requirements, which if not met, could have a material effect on the auditee's combined financial statements and/or state programs.

Each requirement is accompanied by suggested audit procedures for testing compliance. These are intended to be suggestions and are not the only or necessarily the best audit procedures, nor are they mandatory. Auditors should apply professional judgment in determining the audit procedures that are necessary to adequately measure an entity's compliance.

General Requirements: Some constitutional or statutory requirements are applicable to all or most state assistance programs and should be considered in all financial and compliance audits.

Specific Requirements: These requirements are applicable to specific state programs. Specific Requirements are organized in five categories:

- Types of service allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking requirements
- Reporting requirements
- Special tests and provisions

Auditors are not relieved of responsibility for compliance testing of programs not included in specific requirements or compliance supplement sections. Auditors should review the award, grant agreement, regulations, or enabling legislation to determine whether there are special conditions that need to be considered.

LIST OF AGENCY SINGLE AUDIT REPRESENTATIVES

Questions regarding specific requirements for a program should be directed to the funding agency's contact person. See the following page for a list of the current Single Audit Contacts for state agencies and component units receiving centralized monitoring services from the State of Alaska's Single Audit Coordinator's office.

Any component unit not on the list will perform its own single audit monitoring. Questions regarding their individual programs should be addressed directly to that component unit.

Questions regarding state assistance and the application or interpretation of 2 AAC 45 should be directed to the Single Audit Coordinator at (907) 465-4666.

SINGLE AUDIT CONTACTS

SINGLE AUDIT COORDINATOR: COLLEEN CAMPBELL

Department of Administration, Division of Finance, P.O. Box 110204, Juneau, AK 99811-0204
 Phone: 465-4666 Fax 465-2169 E-mail: single.audit@alaska.gov (MS 0204)

<u>ADMINISTRATION</u> June Gotschall -- 465-5653 / Fax 465-2194 Division of Administrative Services P.O. Box 110208, Juneau, AK 99811 june.gotschall@alaska.gov (MS 0208)	<u>ENVIRONMENTAL CONSERVATION</u> Elizabeth (Buffy) Pederson -- 465-5041 / Fax 465-5070 Division of Administrative Services P.O. Box 111800, Juneau, AK 99811-1800 elizabeth.pederson@alaska.gov (MS 1800)
<u>ADMINISTRATION, SURPLUS PROPERTY</u> Melissa Hurley-Marvin -- 465-1474 / Fax 465-2189 Dept. of Administration, Division of Shared Services P.O. Box 110210, Juneau AK 99811-0210 melissa.hurley-marvin@alaska.gov	<u>FISH & GAME</u> Jessica Hood -- 465-6069 / Fax 465-6430 Division of Administrative Services P.O. Box 22526, Juneau, AK 99811-5526 jessica.hood@alaska.gov (MS 1100)
<u>ALASKA COURT SYSTEM</u> Rhonda McLeod -- 264-8215 / Fax 264-8292 Office of the Administration Director 820 W 4 th Ave, Anchorage, AK 99501-2005 rmcleod@courts.state.ak.us	<u>HEALTH & SOCIAL SERVICES</u> Abigail Scott -- 465-3120 / Fax 465-2499 Finance and Management Services P.O. Box 110602, Juneau, AK 99811 abigail.scott@alaska.gov (MS 0650)
<u>ALASKA ENERGY AUTHORITY</u> Shawn Calfa -- 771-3031 / Fax 771-3044 Finance Department 813 West Northern Lights Blvd, Anchorage, AK 99503 scalfa@aidea.org	<u>LABOR AND WORKFORCE DEVELOPMENT</u> Bill Endicott -- 465-5982 / Fax 465-2107 Office of the Commissioner P.O. Box 21149, Juneau, AK 99802-1149 william.endicott@alaska.gov (MS 0700)
<u>ALASKA HOUSING FINANCE CORPORATION</u> Christie Wilcheck -- 330-8270 / Fax 338-2585 Planning and Program Development Department P.O. Box 101020, Anchorage, AK 99510-1020 cwilcheck@ahfc.us	<u>LAW</u> Brook Larson -- 465-3676 / Fax 465-5419 Division of Administrative Services P.O. Box 110300, Juneau, AK 99811 brook.larson@alaska.gov (MS 0300)
<u>ALASKA MENTAL HEALTH TRUST AUTHORITY</u> Lucas Lind -- 269-7999 / Fax 269-7966 3745 Community Park Loop, Ste 200, Anchorage, AK 99508 lucas.lind@alaska.gov	<u>MILITARY & VETERAN'S AFFAIRS</u> Tim Kelly -- 428-7250 / Fax 428-7269 Division of Administrative Services P.O. Box 5800, JBER, AK 99505 tim.kelly@alaska.gov (MS 0900)
<u>ALASKA STATE COUNCIL ON THE ARTS</u> Erica Cuzzort -- 465-8655 / Fax 463-5279 Division of Education Support Services P.O. Box 110500 Juneau, AK 99811 erica.cuzzort@alaska.gov (MS 0500)	<u>NATURAL RESOURCES</u> Luke Canady -- 465-3503 / Fax 465-2102 Division of Support Services 400 Willoughby Ave., Juneau, AK 99801-1724 luke.canady@alaska.gov (MS 1000)
<u>COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT</u> Robert Pearson -- 465-5541 / Fax 465-4761 Division of Community & Regional Affairs P.O. Box 110800, Juneau, AK 99811-0800 robert.pearson@alaska.gov (MS 0800)	<u>PUBLIC SAFETY</u> Bel Liberty -- 465-5501 / Fax 463-5039 Division of Administrative Services P.O. Box 111200, Juneau, AK 99811 bel.liberty@alaska.gov (MS 1200)
<u>CORRECTIONS</u> Sylvan Robb -- 465-3460 / Fax 465-3253 Division of Administrative Services P.O. Box 112000, Juneau, AK 99811 sylvan.robb@alaska.gov (MS 2000)	<u>REVENUE</u> Joy Ribao -- 465-2336 / Fax 465-2037 Division of Administrative Services P.O. Box 110410, Juneau, AK 99811-0410 joylynn.ribo@alaska.gov (MS 0410)
<u>EDUCATION AND EARLY DEVELOPMENT</u> Erica Cuzzort -- 465-8655 / Fax 463-5279 Division of Education Support Services P.O. Box 110500 Juneau, AK 99811 erica.cuzzort@alaska.gov (MS 0500)	<u>TRANSPORTATION & PUBLIC FACILITIES</u> Geri Henricksen -- 465-8445 / Fax 465-3124 Division of Administrative Services P.O. Box 112500, Juneau, AL 99811-2500 geri.henricksen@alaska.gov (MS 2500)

GENERAL COMPLIANCE REQUIREMENTS

Public Purpose Compliance Requirement

Article IX, Section 6 of the Alaska Constitution requires all appropriations of public money or transfer of public property to accomplish a public purpose.

Suggested Audit Procedures: Evaluate expenditures to determine that they accomplish a public purpose.

Civil Rights Compliance Requirement

Alaska Statute 18.80.200 and federal civil rights laws prohibit discrimination against a person because of race, religion, color, national origin, sex, age, physical or mental disability, marital status, change in marital status, pregnancy, or parenthood.

Suggested Audit Procedures:

1. Obtain representation and/or attorney letters to determine whether any civil rights suits have been adjudicated or are pending.
2. During the fiscal year for each program, determine the:
 - a. Number of complaints filed with federal, state and/or local agencies responsible for ensuring nondiscrimination.
 - b. Status of unresolved complaints or investigations.
 - c. Actions taken on resolved complaints or completed investigations.

Minimum Wages Compliance Requirement

Alaska Statute 23.10.065 requires employers to meet minimum wage requirements.

Suggested Audit Procedure: Review payroll records for compliance.

Prevailing Wages Compliance Requirement

Alaska Statute 36.05.010 requires certain projects meet the provisions of AS 36 Public Contracts. To the extent that such provisions apply to the project that is the subject of an assistance agreement, the recipient shall pay the current prevailing rates of wage to employees.

Suggested Audit Procedures:

1. Identify the programs involving construction activities.
2. Review construction contracts and subcontracts and determine whether they contain provisions requiring the payment of prevailing wages.

3. For the selected construction contracts and subcontracts, determine whether the audited entity immediately notified the Alaska Department of Labor & Workforce Development under AS 36.05.035 of the:
 - a) Amount and effective date of the contract
 - b) Identity of the contractor and all subcontractors
 - c) Site or sites of construction
 - d) Project description

Workers' Compensation Compliance Requirement

As required by AS 23.30, recipients of state financial assistance and their contractors shall provide and maintain workers' compensation insurance.

Suggested Audit Procedures:

1. Examine project records to determine whether workers' compensation insurance was provided as required.
2. Determine whether any Department of Labor & Workforce Development actions regarding insufficiency of workers' compensation are proposed or pending.
3. Examine insurance policy to determine whether it provides Alaska benefits for employees hired in Alaska.

Contractors' Bonds Compliance Requirements

Alaska Statute 36.25.010 specifies that except as provided in AS 44.33.300, before a contract exceeds \$100,000 for the construction, alteration, or repair of a public building; or public work of the state or political subdivision of the state is awarded, the contractor shall furnish performance and payment bonds.

Suggested Audit Procedures:

1. Review the recipient's system designed to ensure that contractors meet bonding requirements.
2. Review project records for evidence that contractors met bonding requirements.

Political Activity Compliance Requirement

Alaska Statute 37.05.321 states grant funds may not be used for influencing legislative action. Grant or earnings from a grant made under AS 37.05.315 - .317 (grants to municipalities, grants to named recipients, and grants to unincorporated communities), may not be used for the purpose of influencing legislative actions; or for travel in connection with influencing legislative action unless pursuant to a specific request from a legislator or legislative committee.

Suggested Audit Procedures:

1. Test the expenditures and related records for indications of lobbying activities, publications, or other materials intended for influencing legislation, or similar type costs.
2. Test whether the above costs, if any exist, are charged directly or indirectly to state-assisted programs.
3. Test the personnel and payroll records and identify persons whose responsibilities or activities include political activity.

Retention and Inspection of Records Compliance Requirements

A recipient of state financial assistance shall maintain and make available records of expenditure for those funds. As a minimum, the expenditure records shall be maintained until audits required under 2 AAC 45.010 are completed and noncompliance findings are resolved.

Suggested Audit Procedure: Determine whether prior audit recommendations were resolved and if not; determine that pertinent records are still available for inspection.

Responsibility for Third Parties Compliance Requirement

Per 2 AAC 45.010, a recipient of state financial assistance that disburses financial assistance to a third party(s) in an amount equal to or greater than the audit threshold is required to ensure that the third party(s) complies with audit requirements. The recipient entity must also ensure that appropriate corrective action is taken within six months after disclosure of a third party's noncompliance with state statute or regulation, or financial assistance agreement.

Suggested Audit Procedures:

1. Determine whether the recipient entity has established a system for notifying third parties of their responsibilities, and that the system is being used.
2. Determine that the recipient entity has established a system to ensure third party compliance.
3. Determine whether the recipient entity has established a system to ensure that appropriate corrective action is taken within six months after a third party's noncompliance is disclosed.

Audit Requirements Compliance Requirement

Per 2 AAC 45.010, recipients of state financial assistance that meet the audit threshold are required to submit an audit to the single audit coordinator's office. See section 2 of this *Guide*, Requirements - State Single Audit and Major Program Thresholds.

Suggested Audit Procedure: Refer to information in the "Audit Guide" section of this publication.