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Single Audits/ARPA Impact

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November 17, 2021

Actuarial Audit Financial Services Pension Tax

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SINGLE AUDIT BASICS

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What is a Single Audit?

An additional entity-wide compliance audit, typically performed in conjunction with your financial statement audit

It is required when your entity EXPENDS (normally accrual based) \$750,000 or more in federal awards (can be direct or indirect awards) during the fiscal year

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What is a Single Audit?

The goal of the Single Audit is to provide support to the Federal government that your entity has appropriate and adequate internal controls in place and that you follow the grant requirements.

The auditors will issue additional reports related to the Single Audit:

- Schedule of Expenditures of Federal Awards (SEFA)
- Opinion on Internal Control over Financial Reporting
- Opinion on Compliance and Internal Control over Compliance

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STEP 1: GET ORGANIZED

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Getting Organized

- Spend some time identifying your federal grant awards
 - Review of receipts in the general ledger
 - Discussions with department heads
 - Have departments funnel information and supporting documents through the Finance/Treasurer's office
 - Start to gather grant agreements, related receipts and identify expenditure line items
 - Consider grant money that is sent through the State of Illinois or your county

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STEP 2: COMPILE YOUR INFORMATION

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Compiling Information

- Review receipt and expenditure amounts so you can determine a "draft" Schedule of Expenditures of Federal Awards (SEFA) to determine if you have hit the \$750,000 threshold for a Single Audit
 - Draft should outline grant name, receipts, qualifying expenses, etc.
 - Discuss this "draft" early with your auditors to compare to the \$750,000 threshold for requiring a single audit
- Remember this needs to include ALL federal grant related programs – think about public safety programs (vests), public works (road sharing programs with Federal funding), etc.
- Remember to consider expenditures incurred but not paid by year-end
- **ARPA note:** You will only be subject to a single audit if you *spent* more than \$750,000 (including other federal programs) during the fiscal year, even if your first receipt was greater than \$750,000



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STEP 3: UNDERSTAND YOUR RESPONSIBILITIES

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Understanding Auditee Responsibilities

- Your auditors will be required to test your compliance over federal awards that are deemed "Major Programs"
- Compliance tests are based on the Compliance Supplement for grant CFDA # (now called ALN # - Assistance Listing Number)
- You are responsible for understanding and complying with those compliance requirements
- 2021 Compliance Supplement can be found at: <https://www.singleaudit.org/supplement/>
- The 2021 Compliance Supplement COVID-19 Addendum is expected in Late 2021

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Understanding Auditee Responsibilities

- Each federal award/ALN # have different compliance requirements, but there are 12 primary requirements that could be applicable
 - Activities Allowed or Unallowed
 - Allowable Costs/Cost Principles
 - Cash Management
 - Eligibility
 - Equipment and Real Property Management
 - Matching, Level of Effort, Earmarking
 - Period of Performance
 - Program Income
 - Procurement, Suspension and Debarment
 - Reporting
 - Subrecipient Monitoring
 - Special Tests and Provisions

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STEP 4: REVIEW YOUR INTERNAL CONTROLS AND POLICIES

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Reviewing Controls and Policies

- Besides testing compliance related to your major programs, your auditor is ALSO required to test your internal controls over federal awards for your major programs
- The auditors will need to see several documented policies, including, for example:
 - Cost eligibility identification policy
 - Procurement policy (including discussion of suspension or debarment of vendors)
 - Cash management policy
 - Subrecipient related policies, if applicable

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Reviewing Controls and Policies

- Part 6 "Internal Control" of the OMB's Compliance Supplement is a useful resource: https://www.whitehouse.gov/wp-content/uploads/2020/08/2020-Compliance-Supplement_FINAL_08.06.20.pdf
- Per Part 6 "With respect to federal awards, a system of internal control is expected to provide a non-federal entity with reasonable assurance that the entity's objectives related to compliance with federal statutes, regulations, and the terms and conditions of the federal awards will be achieved."

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Reviewing Controls and Policies

- Related to internal controls, your auditors will utilize a variety of tools to test your control environment:
 - Observation of controls
 - Walk throughs
 - Inquiries of management and those involved in grant administration
 - Document inspection
- Weak internal controls could result in Single Audit deficiencies or material weaknesses being identified and reported in your final SEFA
- Strong internal controls result in proper management, spending, and reporting of grant funds, and reduces the possibility of audit findings

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ARPA OVERVIEW

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ARPA Overview

Coronavirus relief granted \$350 billion in proceeds to States and local governments

Entitlement Units

- Larger government entities, such as counties and cities with populations larger than 50,000
- Receives funding directly from the Treasury

Non-Entitlement Units (NEU's)

- Populations less than 50,000
- Receives funding through the State

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ARPA Overview

Local governments will receive TWO distributions

- 50% as early as May 2021
- Remaining 50% one year later

These are treated as a Federal grant program

- NOTE: Even if you are a NEU community, these will be treated as direct award programs from the U.S. Treasury

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Timeline

- Funds can be used to cover costs **incurred/obligated** by December 31, 2024
 - "Obligated"** per Uniform Guidance: "Financial obligations, when referencing a recipient's or subrecipient's use of funds under Federal award, means orders placed for property or services, contracts and subawards made, and similar transactions that require payment."
- Funds can cover a performance period that ends December 31, 2026
- Depending on your funding allocations, you could have multiple years with Single Audits Required

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ELIGIBLE EXPENSES

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Eligible Expenses

4 Eligible Use Categories

- 1) Public Health and Negative Economic Impacts
- 2) Premium Pay for Essential Workers
- 3) Investments in Water, Sewer and Broadband
- 4) Revenue Loss

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1) Public Health and Negative Economic Impacts



ARPA funds can be used to aid households, businesses and individuals, such as rent, mortgage or utility assistance for costs incurred by households, businesses or individuals prior to MARCH 3, 2021

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1) Public Health and Negative Economic Impacts – Continued

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Services and Programs to Contain and Mitigate the Spread of COVID-19

Vaccination programs	Medical expenses	Testing
Contact tracing	Isolation or quarantine	PPE purchases
Support for vulnerable populations to access medical/public health services	Public health surveillance (for example, monitoring for variants)	Enhancement of healthcare capacity, including alt. care
Enforcement of public health orders	Public communication efforts	Enhancements of public health data systems
Support for prevention, mitigation, or other services in congregate living facilities and schools	Capital investments in public facilities to meet pandemic operational needs	Ventilation improvements in key settings like healthcare facilities

Services to Address Behavioral Healthcare Needs Exacerbated by the Pandemic

Mental health treatment	Substance misuse treatment	Other behavioral health services
Hotlines or warmlines	Services or outreach to promote access to health and social services	Crisis intervention

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1) Public Health and Negative Economic Impacts – Continued

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Addressing the Negative Economic Impacts Caused by the Public Health Emergency

Delivering Assistance to Workers and Families , including aid to unemployed workers and job training, as well as aid to households facing food, housing, or other financial insecurity. In addition, these funds can support survivor's benefits for family members of COVID-19 victims	Supporting Small Businesses , helping them address financial challenges caused by the pandemic and to make investments in COVID-19 prevention and mitigation tactics, as well as to provide technical assistance. To achieve these goals, recipients may employ this funding to execute a broad array of loan, grant, in-kind assistance, and counseling programs to enable small businesses to rebound from the downturn.
Speeding the Recovery of the Tourism, Travel and Hospitality Sectors , supporting industries that were particularly hard-hit by the COVID-19 emergency and are just not beginning to mend. Similarly impacted sectors within a local area are also eligible for support	Rebuilding Public Sector Capacity , by rehiring public sector staff and replenishing unemployment insurance (UI) trust funds, in each case up to pre-pandemic levels. Recipients may also use this funding to build their internal capacity to successfully implement economic relief programs, with investments in data analysis, targeted outreach, technology infrastructure, and impact evaluations

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1) Public Health and Negative Economic Impacts - Continued

Serving the Hardest-Hit Communities and Families

<p>Addressing Health Disparities and the Social Determinants of Health, through funding for community health workers, public benefits navigators, remediation of lead hazards, and community violence intervention programs</p>	<p>Investments in Housing and Neighborhoods, such as services to address individuals experiencing homelessness, affordable housing development, housing vouchers, and residential counseling and housing navigation assistance to facilitate moves to neighborhoods with high economic opportunity</p>
<p>Addressing Educational Disparities through new or expanded early learning services, providing additional resources to high-poverty school districts, and offering educational services like tutoring or afterschool programs as well as services to address social, emotional, and mental health needs</p>	<p>Promoting Health Childhood Environments, including new or expanded high quality childcare, home visiting programs for families with young children, and enhanced services for child welfare-involved families and foster youth</p>

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1) Public Health and Negative Economic Impacts - Continued

- Payroll and covered benefit expenses for public health, healthcare, human services, public safety and similar employees, *to the extent that they work on the COVID-19 response*.
 - Will NOT be able to just claim public safety payroll expenses like CARES/CURES money
 - Employees must be actively working on the COVID-19 response
 - Will need to submit supporting documentation to validate they are actively working on the COVID-19 response

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2) Premium Pay for Essential Workers



ARPA funds can be used to provide premium pay **retroactively** for workers performing essential work during the COVID-19 public health emergency. This pay must be in addition to wages already paid, and the obligation to provide such pay must not have been incurred prior to March 3, 2021

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1) Premium Pay to Essential Workers— Continued

Essential Workers:	
Staff at nursing homes, hospitals and home-care settings	Workers at farms, food production facilities, grocery stores, and restaurants
Janitors and sanitation workers	Public health and safety staff
Truck drivers, transit staff, and warehouse workers	Childcare workers, educators, and school staff
Social service and human services staff	

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3) Investments in Water, Sewer and Broadband



ARPA funds can be used to make necessary investments in water, sewer, or broadband infrastructure. Eligible projects may be *planned* or *started* prior to March 3, 2021, provided that the actual project costs covered by the funds were incurred *after* March 3, 2021

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3) Investments in Water, Sewer and Broadband - Continued

Drinking Water Infrastructure Projects	
Building or upgrading facilities	Building or upgrading transmission systems
Building or upgrading distribution systems	Building or upgrading storage systems
Replacement of lead service lines	
Wastewater Infrastructure Projects	
Constructing publicly-owned treatment infrastructure	Managing and treating stormwater or subsurface drainage water
Facilitating water reuse	Securing publicly-owned treatment works

Generally, these are projects that align with the EPA's Clean Water State Revolving Fund and Drinking Water State Revolving Fund projects

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3) Investments in Water, Sewer and Broadband - Continued

Broadband Projects

Investments should be made in areas currently unserved or underserved.	Areas lacking a wireline connection that reliably delivers minimum speeds of 25 Mbps download and 3 Mbps upload
Prioritize projects that achieve last-mile connections to households and businesses	Must include use of modern technologies that deliver services offering reliable 100 Mbps download and 100 Mbps upload speeds

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4) Revenue Loss



The Treasury's Interim Final Rule provides governments a broader latitude to use funds for the *provision of government services* to the extent of reduction in revenue. The use of lost revenue ARPA funds for government services must be forward looking for costs incurred *after March 3, 2021*

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4) Revenue Loss

- Overall items to note:
 - The amount of revenue loss CAN'T just be deposited to replenish lost reserves – the amount calculated still must be SPENT on eligible expenses
 - This calculation ONLY determines the categories that you can spend your money on.
 - The Revenue Loss Category has the most flexibility with spending
 - The calculation assumes a 4.1% revenue growth factor, so your calculation may result in more revenue loss than you were expecting
 - The amount of your revenue loss calculation must be spent on the Interim Final Rule's non-exclusive list of "government services" that include providing services or aid to citizens

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4) Revenue Loss – Continued

- Calculating your Revenue Loss Amount
 - Recommended use of the GFOA revenue loss calculator
<https://www.gfoa.org/materials/arpa-revenue-calculator>
- Some tips in doing your calculation
 - Revenue is calculated on a full-accrual, entity-wide basis so make sure can tie your "Base Year Revenue" tab of the calculator to your Statement of Activities in your audit.
 - "Base Year Revenue" tab calculation is based on your FISCAL year end
 - For April year ends, this will be using your 4/30/2019 Audited Financial Statements
 - For December year ends, this will be using your 12/31/2019
 - You will then provide the three previous FISCAL years on the "Growth Rate" tab of the calculator
 - Actual revenue beginning in 2020 per the "Actual Revenue" tab will be based on a DECEMBER year end for ALL entities

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4) Revenue Loss – Continued

- Revenue calculations exclude several items:
 - Federal Revenue/Grants
 - Refunds and other reclass/correction amounts
 - Proceeds from debt issuance or sale of investments
 - Revenues generated by utilities
- Any reduction in revenue is PRESUMED to be from the pandemic impact and you don't have to prove it was (assumes a 4.1% revenue growth each year)
- Your revenue loss calculation will be done at 4 points in time: 12/31/2020, 12/31/2021, 12/31/2022 and 12/31/2023

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4) Revenue Loss – Continued

- Once you complete your Revenue Loss calculation, you have determined the dollar amount you are allowed to spend on this category of expenses
- These funds must be used on the non-exclusive list of "government services"
- These funds can be used on "pay-go" infrastructure
 - Practice of funding the costs of ongoing capital from existing reserves/cash on hand, rather than from borrowed funds. An entity can use ARPA funds to start a capital project and then finish it with future economic revenues or bonds/long-term debt borrowings

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4) Revenue Loss – Continued

- These funds can be used on the following:
 - Maintenance of infrastructure
 - Pay-go spending for building new infrastructure, including roads
 - Modernization of cybersecurity, including hardware, software, and protection of critical infrastructure
 - Health services
 - Environmental remediation
 - School or educational services
 - Provision of police, fire and other public safety services

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EXCLUDED EXPENSES

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Excluded Expenses



Paying principal or interest on existing outstanding debt, including short-term debt



Paying fees or insurance costs related to the issuance of new debt



Replenishing a rainy-day fund/reserve funds



Paying legal settlements or judgments



Making pension deposits (outside of your normal funding for the year) to "pre-fund" or reduce your pension liability

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REPORTING REQUIREMENTS

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Reporting Requirements

Recipient	Interim Report	Project and Expenditure Report	Recover Plan Performance Report
States, U.S. territories, metropolitan cities and counties with a population that exceeds 250,000 residents	By August 31, 2021, with expenditures by category	By October 31, 2021, and then 30 days after the end of each quarter thereafter (NOW EXTENDED TO JANUARY 31, 2022)	By August 31, 2021 and annually thereafter by July 31
Metropolitan cities and counties with a population below 250,000 residents which received more than \$5 million in SLRFR funding			
Tribal Governments			
Metropolitan cities and counties with a population below 250,000 residents which received less than \$5 million in SLRFR funding	Not Required	By October 31, 2021, and then annually thereafter (NOW EXTENDED TO APRIL 30, 2022)	Not Required
NELs (Non-Entitlement Units)			

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Questions???



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