

# Technical Line

Entities should reevaluate the design of their internal controls over completeness and accuracy of the SEFA

Entities should make sure their internal controls over completeness and accuracy of the SEFA are designed to identify all federal awards.

## What you need to know

- ▶ State and local governments and not-for-profit entities that receive federal funding need to make sure their internal controls address the heightened risk that they may not identify all awards they are required to report on the Schedule of Expenditures of Federal Awards (SEFA), given all of the new federal programs relating to the COVID-19 pandemic.
- ▶ Entities should reevaluate the design of their internal controls over the completeness and accuracy of the information they list on the SEFA and make sure their controls are sufficiently precise.
- ▶ Internal controls over the completeness and accuracy of the SEFA generally should be designed at a level of precision that is more precise than controls over reporting federal grants in the financial statements because they need to identify all expenditures of federal funds (both direct and indirect), including those that are immaterial to the financial statements.
- ▶ Entities should check federal, state and local government websites that report federal pandemic funding to help them assess the completeness and accuracy of their SEFAs.

## Overview

State and local governments and nonprofit organizations (nonfederal entities) that expend federal funds need to reevaluate their internal controls over the completeness and accuracy of the information they report on their SEFA to make sure they address the heightened risk of errors that would result in noncompliance with federal reporting requirements, given all of the new federal programs related to COVID-19 and the challenges of tracking those awards.

Preparing a complete and accurate SEFA is always important because nonfederal entities use the SEFA to determine whether they need a compliance audit performed in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), and auditors who perform these audits use it to determine which programs to audit as major programs. A Uniform Guidance compliance audit is required if an entity expends \$750,000 or more in federal funds in a fiscal year.

In the current environment, nonfederal entities may need to design more precise controls to track COVID-19 funding received and expended, and they also may need to make adjustments to their suite of controls, including adjustments to reflect the fact that the employees involved in the process of collecting the information may be working remotely. Tracking expenditures of COVID-19 funding may be difficult because an entity may receive federal funding that it didn't apply for, and the money may be deposited in the entity's bank account without management or those charged with governance knowing about it.

An entity also may be a subrecipient of federal funding passed through by another nonfederal entity (e.g., funding from the Coronavirus Relief Fund that is distributed by a state government but administered by the US Department of the Treasury) that doesn't clearly indicate in the documentation it provides that the source of the funding is the federal government.

Additionally, the entity itself may have a different process for administering COVID-19 funding than it uses for other federal programs. For example, billing department personnel at many entities are processing federal reimbursements for COVID-19 testing, treatment and vaccine administration of uninsured patients rather than grant compliance administrators or finance personnel who typically handle federal awards and have the requisite experience with compliance requirements.

Some entities that expend \$750,000 or more in federal funds in their fiscal year will also have to prepare a SEFA as part of a compliance audit package and be subject to a Uniform Guidance compliance audit for the first time.

If the information listed on a SEFA is inaccurate or incomplete, an entity could inappropriately conclude that a compliance audit isn't necessary or the auditor could reach an incorrect conclusion about whether a federal program needs to be audited as a major program.

A SEFA that is found to contain an error may need to be restated by the entity. If that happens, the auditor may need to do more work or may even need to reissue its opinion on compliance. This extra effort can be costly for entities, especially since errors are often uncovered several years in arrears by federal agencies and/or state and local government pass-through entities that provided funding to entities.

## Key considerations

Nonfederal entities should establish a thorough SEFA preparation process with internal controls that are designed to identify all expenditures of federal awards (both direct and indirect).

The SEFA preparation process should be ongoing to allow the entity to make updates regularly throughout the year rather than only at year end. One way to do that is to incorporate SEFA preparation into the entity's monthly financial statement close process because it may be easier to detect mistakes, omissions and any changes in federal award agreements that impact the SEFA when reviewing activity for one month rather than an entire year.

As part of this process, management should design and implement a detect control to identify federal expenditures that have not been reported on the SEFA. This detect review control should be performed as part of the periodic financial statement closing process and be performed

over such items as general journal entries, cash receipts and general ledger account activity affecting accounts such as contractual revenue, miscellaneous revenue, contribution or grant revenue where federal grant activity is more likely to be recorded. The control should be set at an appropriate level of precision to identify expenditures recorded on the financial statements that may appear to relate to federal grants that may not be reported on the SEFA which should be referred to appropriate personnel who prepare the SEFA for investigation.

Nonfederal entities also should have controls that require communication (e.g., periodic questionnaires about the existence of new federal awards) between the finance, grant administration, compliance and other relevant operating departments. Communication is especially important for large and/or decentralized organizations that may be receiving federal funding in multiple locations.

Nonfederal entities also need to check the [beta.sam.gov](https://beta.sam.gov) website to make sure they include the appropriate federal assistance listing number for programs they include on the SEFA, as required by the Uniform Guidance. However, some programs that need to be reported on the SEFA may not have an assistance listing number and therefore would not be listed on this site.

To help identify all federal programs they might need to report on the SEFA, management should monitor information available on various other websites that provide details on federal awards, including the following:

- ▶ **USA Spending** is the official source for federal spending data for the US Government. Its purpose is to provide the public what the federal government spends each fiscal year and how it spends the money.
- ▶ **Tracking Accountability in Government Grants System (TAGGS)** is a database of grants awarded by the US Department of Health and Human Services. It lists over 20 years of grant-award data.
- ▶ **Coronavirus Relief Fund (CRF): Pandemic Oversight** reports spending by states, the District of Columbia, US territories and eligible units of local government with a population of over 500,000 that received awards from the CRF, administered by the US Department of the Treasury.
- ▶ The American Institute of Certified Public Accountants Government Audit Quality Center's **Summary of Uniform Guidance Applicability for New COVID-19-Related Federal Programs** lists federal programs that are subject to the Uniform Guidance audit requirements.

While many of the federal COVID-19 programs were created last year by the Coronavirus Aid, Relief, and Economic Security Act and related legislation, it is likely that certain new federal programs created by the American Rescue Plan Act of 2021 will also be subject to the Uniform Guidance audit requirements.

### **Precision of internal controls over completeness and accuracy of the SEFA**

Internal controls should be designed to operate at a sufficient level of precision to address the following:

- ▶ An entity needs to consider all of its expenditures of federal funds to determine whether its total federal expenditures in a fiscal year are \$750,000 or more and therefore trigger the requirement for a Uniform Guidance compliance audit. That means an entity's controls should be set at a level of precision sensitive enough to determine if its aggregate annual federal expenditures are at or above \$750,000.

Precision of internal controls over completeness and accuracy of the SEFA should be based on qualitative and quantitative factors.

- ▶ An entity needs to make sure that all information on the SEFA for each program, such as the federal program name, assistance listing number and federal expenditure amounts, is complete and accurate because the auditor uses this information to determine which programs to audit as major federal programs in a Uniform Guidance compliance audit (i.e., Type A and Type B).
- ▶ Effective controls over the completeness and accuracy of the SEFA generally should be more precise than what is considered necessary for controls over reporting in the financial statements because the controls need to identify all expenditures of federal funds, including those that are immaterial to the financial statements.

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