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## Federal Law Audit Requirements

*Disclaimer:* If your charitable nonprofit receives money from the federal government and expends \$750,000 or more of federal awards in a fiscal year, the organization is required to have an independent compliance audit referred to as a "Single Audit." (Various state and local laws may also require an independent financial audit for charitable nonprofits that receive funds from state and local governments. Read about [state law requirements](#).) Failing to follow the regulations can result in significant adverse consequences. The information presented here only touches on the basic information. *Consequently, the National Council of Nonprofits encourages affected nonprofits to seek professional guidance* in order to comply with federal regulations.

### Background on the federal law governing nonprofit audits

The government passed the [Single Audit Act of 1984, as amended in 1996](#), to ensure that organizations receiving federal grant awards use the funds in compliance with the federal government's requirements. The Act refers to a "single audit" because it consolidates multiple individual compliance audits into a single audit covering all of a non-federal entity's federal awards. The stated purpose of the law is to promote sound financial management of government funds by non-federal

organizations, promote uniform guidelines for audits, and reduce burdens on government and nonprofits by promoting “efficient and effective use of audit resources.” The [Office of Management and Budget](#) (OMB) explains it this way: "A single audit is intended to provide a cost-effective audit for non-Federal entities in that one audit is conducted in lieu of multiple audits of individual programs."

In December of 2014, the OMB issued [Uniform Administrative Requirements, Cost Principles, and Audit Requirements](#), which combines what had been previously contained in eight separate OMB Circulars related to grants into a single set of rules known as the Uniform Guidance. Prior to the issuance of the Uniform Guidance, OMB Circular A-133 governed the audit requirements under the Single Audit Act. [Subpart F of the Uniform Guidance](#) **replaces Circular A-133** with the Single Audit compliance supplement contained in [Appendix XI](#) of the Uniform Guidance. **Subpart F, Audit Requirements, applies to audits of non-Federal entity fiscal years beginning on or after December 26, 2014** (the first fiscal year that begins after December 26, 2014). For nonprofits using the calendar year as their fiscal year, these requirements became effective for December 31, 2015 year-end audits.

- A full comparison of audit requirements under OMB Circular A-133 and Uniform Guidance Subpart F can be found here: [Audit Requirements Comparison Chart](#) (Source: COFAR)

## Does our nonprofit need a "Single Audit"?

Currently, as a result of the [Uniform Guidance](#), all non-federal government agencies and nonprofit organizations that expend \$750,000 or more in federal awards in a given fiscal year are required to obtain a Single Audit. (Prior to the Uniform Guidance, OMB Circular A-133 governed the audit requirement for Single Audits, and the threshold was \$500,000.)

"Federal grant funds" refers to money paid to a nonprofit, either directly from a federal agency, or by way of funds originating at the federal level and passing through another entity, such as a state or local government agency - or another nonprofit (that nonprofit is known as a "subrecipient" of federal funds). In order to determine whether the \$750,000 threshold is met (thus requiring a Single Audit), a nonprofit must count not only the amount of federal funds received directly from federal agencies, but also funds received from pass-through entities (subrecipients).

Audit requirements that apply to federal awards are set forth in the OMB Uniform Guidance. **The Uniform Guidance does not apply to contracts as defined by the federal government.** The federal government uses the terminology "contract" to refer to agreements between the federal government and nonprofits that address funds used by the nonprofit to purchase goods or services for the purchaser's own use. Grants are to purchase goods and services for public benefit, even when called a "contract."

## How is a Single Audit different from a regular independent audit? What is its scope?

Single Audits cover the entire organization's financial operations, and are substantially more detailed than a regular independent audit. A Single Audit requires higher levels of testing by the independent auditor to establish that:

- The financial statements are presented fairly and accurately; and in accordance with federal cost principles;
- The organization has an adequate internal control structure, and that;
- The organization is in compliance with any special government regulations/laws that apply to the specific federal funding stream.

## What triggers the requirement for a Single Audit?

Any non-federal entity that expends \$750,000 or more in federal award funds during its fiscal year is required to obtain a Single Audit (or [Program-specific Audit](#), if applicable.) Remember: Federal funds expended include those directly from a federal agency in addition to federal funds passed through another entity first.

The chart below includes types of federal financial assistance and explains **how to determine when federal funds are "expended"** so you can know when a Single Audit may be required:

**Type of Federal Financial Assistance Received**

**Basis for Determining When Expended**

Grants, cost reimbursement contracts, cooperative agreements, and direct appropriations	When the expenditure or expense occurs
Loan and loan guarantees	When the loan proceeds are used
Donated property, including surplus property	When the property is received
Food commodities	When the food commodities are distributed or consumed
Interest subsidies	When amounts are disbursed entitling the entity to an interest subsidy
Insurance	When the insurance is in force

NOTE: Payments for patient care under Medicaid and Medicare are not included in funds expended toward reaching the \$750,000 threshold.

## Practice Pointers

- Remember that the Single Audit requirement only kicks in when an organization has expended \$750,000 of federal funds. The OMB Uniform Guidance now requires that pass-through entities provide the subrecipient written documentation of the source and amount of funds included in the award.
- The Single Audit must be completed and submitted in machine-readable format to the Federal Audit Clearinghouse either within 30 days after receiving the auditor's report, or nine months after the end of the nonprofit's fiscal year, whichever comes earlier.
- The Single Audit also must be submitted to any pass-through entity, if applicable, and

- Copies of the audit report must be made available to the public, which can be accomplished by posting a link to the report from the nonprofit's website.

If a Single Audit is required, the nonprofit may include the cost of the audit in the organization's **direct costs**. The cost of independent audits may be included as indirect costs.

Note: We are grateful to [Gregg Bossen, CPA](#) for updating this page for accuracy in December, 2022.

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**Disclaimer:** *The resources in this Guide are offered for informational purposes only. The National Council of Nonprofits recommends consulting a lawyer or accountant who has expertise in accounting rules for charitable nonprofits so that you can be confident that your charitable nonprofit is in compliance with all legal requirements. And, when your organization is looking for trusted information about financial management practices, good governance, and accountability, don't overlook the resources that membership in your [state association of nonprofits](#) can provide.*