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Federal Law Audit Requirements

Disclaimer: If your charitable nonprofit receives money from the federal government and expends \$1 million or more of federal dollars 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. A "Single Audit" is organization-wide and includes a non-federal entity's financial statement and all its 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."

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 \$1 million or more in federal dollars in a given fiscal year are required to obtain a Single Audit.

"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 \$1 million 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 \$1 million or more in federal 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

NOTE: Payments for patient care under Medicaid and Medicare are not included in funds expended toward reaching the \$1 million threshold.

Practice Pointers

- Remember that the Single Audit requirement only kicks in when an organization has expended \$1 million of federal funds. The OMB Uniform Guidance 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 electronically 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 [audit period](#), whichever comes earlier.
- The Single Audit also must be submitted to any pass-through entity, if applicable, and

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. Single Audits are conducted by independent non-Federal auditors.

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- **Acknowledgements**

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.*