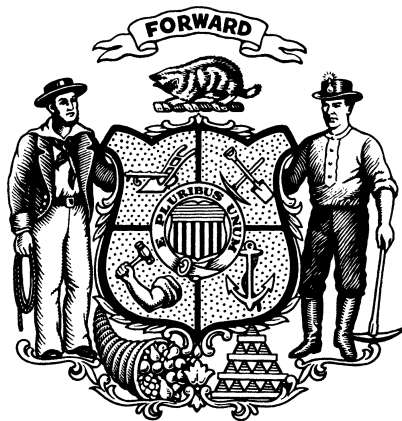


State Single Audit Guidelines

Main Document

*State of Wisconsin
Department of Administration
and
State Single Audit Committee*



2013 Revision

State Single Audit Guidelines

Main Document

Foreword

The State of Wisconsin has adopted in principle the federal audit requirements in OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations” for recipients of funding from the State. The *State Single Audit Guidelines* implement the federal audit requirements for certain state programs and federal programs passed through state agencies.

This document is part of the *State Single Audit Guidelines*, and it should be used only in context of the *Guidelines* as a whole. The *Guidelines* consist of two parts: the main document, which describes the state’s single audit policy in general terms, and the department-specific appendices, which detail audit requirements for programs from the respective departments. An auditor planning an audit needs to consult the main document and the appendices for each of the departments that provided funding to the auditee. For example, if the auditee received funding from the Department of Workforce Development (DWD), the Department of Health Services (DHS), and the Department of Children & Families (DCF) the auditor will need the main document, the DWD appendix, the DHS appendix and the DCF appendix. The main document and all appendices are online at www.ssag.state.wi.us.

The *Guidelines* will be updated periodically to reflect changes in auditing requirements and program requirements. In addition, we welcome your suggestions for ways to improve these *Guidelines*. You will find the names and addresses of contact people for each of the departments in the respective appendices. In addition, suggestions can be sent to:

State Controller’s Office
Department of Administration
P.O. Box 7932
Madison, WI 53707-7932

Telephone: (608) 267-6932
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State Single Audit Guidelines

Main Document

1 Introduction

The *State Single Audit Guidelines* implement the federal audit requirements for certain state programs and federal programs passed through state agencies.

1.1 Definitions

In this document,

Auditee means any local government, non-profit, or for profit organization that expends funds from state or federal pass-through programs and that must be audited under these *Guidelines*.

Auditor means a certified public accountant who possesses the qualifications to perform an audit in accordance with these *Guidelines* ([Section 2.2.1](#)).

Federal pass-through programs means federal awards passed through a state agency.

Granting agency means the agency that awarded a state or federal pass-through program to the auditee. The granting agency may be a state agency or another agency which subcontracts state or federal pass-through funding.

Program audit means an audit in accordance with OMB Circular A-133 and the *State Single Audit Guidelines* of a maximum of one federal program and one state program as provided for in [Section 1.3](#).

Single audit means an audit in accordance with OMB Circular A-133 and the *State Single Audit Guidelines* that includes the auditee's financial statements and federal and state programs.

State program means an award of state funds from a state agency.

1.2 Overview of Guidelines

The *State Single Audit Guidelines* consist of two parts, both of which are applicable to audits performed in accordance with these *Guidelines*. These two parts are:

- **Main document** – The main document (this document) includes general guidance that is applicable to all audits performed in accordance with these *Guidelines*:
 - [Chapter 2 - Roles and responsibilities](#)
 - [Chapter 3 - Performing the audit](#)
 - [Chapter 4 - Preparing the audit reporting package](#)

- [Chapter 5 - Sending the audit report to granting agencies](#)
- **Appendices** – The appendices are organized by state department and include information and audit requirements for programs.

The main document and the appendices are online at www.ssag.state.wi.us. In addition, the website has links to material that is not part of the policy document, but which may be useful to auditees and auditors, such as desk review and workpaper review checklists and a library of audit-related resources.

1.3 When are Guidelines applicable and what kind of audit is needed?

The *State Single Audit Guidelines* are applicable to an audit if all three conditions are met:

Condition #1. OMB Circular A-133 applies:

- The agency is a local government or a non-profit organization that expended \$500,000 or more in federal awards.
- The agency is a for-profit that expended \$500,000 or more in federal awards from the federal Department of Health and Human Services (HHS) *and* the granting agency specifies that the audit be in accordance with OMB Circular A-133. (An HHS interpretation of 45 CFR Part 74 authorizes a granting agency subcontracting HHS funding to a for-profit organization to specify that the for-profit organization have an audit in accordance with A-133 or *Government Auditing Standards*.)
- The granting agency specifies that the audit be in accordance with OMB Circular A-133.

And

Condition #2. The agency received funding from a state department. This funding may be state money or federal pass-through money.

And

Condition #3. The granting agency has not otherwise specified that the *Guidelines* are not applicable. For example, the granting agency may exempt certain programs from audit or may require different audit standards for certain types of programs or auditees. See respective department appendices (online at www.ssag.state.wi.us) for guidance on when the *Guidelines* are applicable to specific state and federal pass-through programs.

The audit will be a single audit, including an audit of the financial statements, unless the auditee opts for a program audit. A program audit may be performed under the following circumstances:

Condition #1. The auditee receives federal funding under only one federal program, whether direct from the federal government or passed through a state agency.

And

Condition #2. The auditee receives state funding under a maximum of one state funded program.

And

Condition #3. The laws, regulations, or contracts for the federal and state programs do not require a single audit.

1.4 Single audit cost

The cost of an audit is allowable for reimbursement from state and federal pass-through programs if:

- ***Audit met applicable standards*** - The audit was performed in accordance with applicable standards, which include auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133, the *State Single Audit Guidelines*, and any other standards specified by the granting agency ([Section 3.1](#)).
- ***Audit costs charged to federal programs are allowable by federal policy*** - Costs charged to federal programs must be allowable by federal policy, and OMB Circular A-133 specifically prohibits charging federal programs for the cost of an audit when an audit is not required by federal standards. Therefore, one of the three following conditions must also be present:
 - The agency is a local government or a non-profit organization that expended \$500,000 or more in federal awards.
 - The agency is a for-profit organization that expended \$500,000 or more in federal awards from the federal Department of Health and Human Services (HHS) *and* the granting agency specifies that the audit be in accordance with OMB Circular A-133.
 - The granting agency gave prior approval for using state program funds for an audit in accordance with OMB Circular A-133.
- ***Costs represent fair share*** - The percentage of the audit cost charged to federal and state programs should not exceed the percentage of federal and state funds expended in relation to the total funds expended by the auditee during the fiscal year. For example, if federal and state expenditures are 40% of total expenditures for the fiscal year being audited, normally no more than 40% of the cost for the audit can be charged to the federal and state financial assistance programs. However, the percentage may be exceeded if appropriate documentation demonstrates higher actual cost.

The auditee may charge the respective program for the incremental cost of auditing declared major programs and additional supplemental schedule ([Section 3.4](#)).

1.5 Additional review

Having an audit under these *Guidelines* does not limit the authority of granting agencies to conduct or arrange for other audits or reviews of federal or state programs. However, granting agencies should use information from the audit to conduct their own reviews without duplication of the audit work.

1.6 Audit due date

Audits performed under these *Guidelines* are due to the granting agencies nine months from the end of the fiscal period or 30 days from completion of the audit, whichever is sooner.

Extensions of due dates are no longer allowed.

1.7 Sanctions

The granting agency may impose sanctions when needed to ensure that auditees have complied with the requirements to provide the granting agency with an audit that meets the applicable standards and to administer state and federal programs in accordance with the applicable requirements. Examples of situations when sanctions may be warranted include:

- The auditee did not have an audit.
- The auditee did not send the audit to the granting agency within the original or extended audit deadline.
- The auditor did not perform the audit in accordance with applicable standards, including the standards described in these *Guidelines*.
- The audit reporting package is not complete, for example the reporting package is missing the corrective action plan or other required elements.
- The auditee does not cooperate with the granting agency's audit resolution efforts, for example the auditee does not take corrective action or does not repay disallowed costs to the granting agency.

The granting agency should choose sanctions that suit the particular circumstances and that promote compliance or corrective action. Possible sanctions include:

- Require modified monitoring and/or reporting provisions.
- Delay payments, withhold a percentage of the payments, withhold or disallow overhead costs, or suspend the award until the auditee is in compliance.
- Discontinue contracting with the auditee.
- Conduct an audit or arrange for an independent audit of the auditee and charge the cost of completing the audit to the auditee.
- Charge the auditee for loss of federal or state aid or for penalties assessed to the granting agency because the auditee did not comply with audit requirements.
- Disallow the cost of audits that do not meet these standards.
- Take other action that the granting agency determines is necessary to protect state or federal pass-through funding.

1.8 Effective date

The 2013 update to the *State Single Audit Guidelines* is effective for audits of years ending after June 30, 2013.

1.9 For additional information

Auditees and auditors should contact the audit staff at the respective granting agencies for issues concerning specific programs. Contact information is on line at www.ssag.state.wi.us.

2 Roles and responsibilities

The auditee ([Section 2.1](#)), the auditor ([Section 2.2](#)), the granting agency ([Section 2.3](#)), the Department of Administration ([Section 2.4](#)), and the Legislative Audit Bureau ([Section 2.5](#)) all have roles and responsibilities in the audit process under the *State Single Audit Guidelines*.

2.1 The auditee

The auditee has several responsibilities related to administering state and federal pass-through awards: identifying federal and state awards in its accounts ([Section 2.1.1](#)), maintaining internal controls over these awards ([Section 2.1.2](#)), complying with laws and regulations ([Section 2.1.3](#)), and preventing fraud ([Section 2.1.4](#)). The auditee also has audit-related responsibilities: procuring audit services ([Section 2.1.5](#)), preparing audit reporting package elements ([Section 2.1.6](#)), taking corrective action for audit findings ([Section 2.1.7](#)), sending the audit reporting package to the granting agencies ([Section 2.1.8](#)), and following audit report retention requirements ([Section 2.1.9](#)).

2.1.1 Identify state and federal pass-through awards in accounts

The auditee shall identify in its accounts all state and federal pass-through awards received and expended and the federal and state programs under which they were received. Federal programs shall be identified by the *Catalog of Federal Domestic Assistance (CFDA)* title and number, award number and year, name of the federal agency, and name of the pass-through entity, as applicable. State programs shall be identified by the identification number assigned by the granting agency and by the name of the granting agency.

2.1.2 Maintain internal controls over state and federal pass-through awards

The auditee shall maintain internal control over state and federal pass-through awards that provides reasonable assurance that the auditee is managing state and federal pass-through awards in compliance with laws, regulations, and the provisions of contracts that could have a material effect on each of its state and federal pass-through programs.

2.1.3 Comply with laws and regulations

The auditee shall comply with laws, regulations, and the contracts related to each of its state and federal pass-through programs.

If the auditee, in turn, passed state or federal pass-through funding to another entity, the auditee is also a granting agency and has granting agency responsibilities. These responsibilities are covered in [Section 2.3](#).

2.1.4 Prevent and detect fraud

Fraud is getting something of value under false pretenses. Examples of fraud involving financial assistance include:

- A caseworker enrolling his or her family members in government programs so they receive benefits for which they were not eligible.
- An agency reporting false financial or performance information to improve the likelihood that the funding agency will renew the contract.
- An agency knowingly reporting unallowable expenses for reimbursement from grants.

In each of these examples, someone was injured: an eligible person who didn't receive services because slots were filled with ineligible people, an agency that didn't get a contract it was qualified for because the contract went to an agency that cheated, and the funding agency that paid more for services than it should have.

Fraud involving government funding also violates the public trust. So, in addition to each individually identifiable victim, another victim is the public as a whole.

The risk of fraud is much higher when two key factors are present: pressure or incentive to commit fraud and the perceived opportunity to do so. The incentive could be personal (money for oneself or for one's family) or organizational (the agency needing to lay off staff if it loses its government contract). The opportunity could be weakness in internal controls or the belief that the internal controls can be circumvented.

The auditee's management is responsible for preventing and detecting fraud. Management sets the "tone at the top," the overall attitude that deters fraud. The risk of fraud is generally lower when management ensures that the agency has a sound system of internal controls. Correspondingly, the risk is greater when management conveys the attitude that internal controls are not important.

When fraud is discovered, management is also responsible for reporting the fraud to the granting agency and for taking timely and appropriate action to remedy the fraud. The notification should be made by letter as soon as possible after the discovery of the fraud. The letter should include information answering the following questions:

- Who was involved in the fraud?
- What happened?
- When did the fraud happen?
- How did the auditee learn of the fraud?
- Did the fraud involve state or federal pass-through funds, either directly or indirectly? (i.e., did the people involved in the fraud have duties related to state or federal pass-through funding, whether or not the fraud itself involved state or federal pass-through funding? Were the controls that were circumvented in the fraud also used for state or federal pass-through funding?)
- What has the auditee done in reaction to the fraud? (I.E., investigate extent and causes of the instance of fraud and identify changes needed to systems to prevent fraud in the future.)

[Section 3.6](#) includes discussion of the auditor’s responsibilities for consideration of fraud in a financial assistance environment.

2.1.5 Procure audit services

The auditee should read the contract, these *Guidelines*, and the respective federal and state regulations and policies to obtain an understanding of the audit requirements that are applicable to the auditee, including when these *Guidelines* apply and what type of audit is needed ([Section 1.3](#)). Auditees may also consult with the granting agency, and the Department of Administration for assistance in understanding audit requirements.

The auditee shall contract with a qualified independent auditor to perform the single audit. The auditee should clearly specify in its engagement agreement with the independent auditor that the audit will comply with the federal and state single audit requirements.

Auditees should follow acceptable procurement practices when procuring audit services, just as they would when procuring any other goods and services. Standards for procurement practices are in OMB Circular A-102 “Grants and Cooperative Agreements with State and Local Governments,” also known as the “Common Rule,” and OMB Circular A-110, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations.”

In requesting proposals for audit services, the auditee should clearly state the objectives and scope of the audit. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews (peer reviews), and price.

The Mid-America Intergovernmental Audit Forum’s guide “Choosing an External Auditor” is a good source of guidance on audit procurement. The guide discusses five basic elements of an effective audit procurement process:

- ***Plan*** – Decide what needs to be done and when.
- ***Foster competition by soliciting proposals*** – Write a clear and direct solicitation document and disseminate it widely.
- ***Evaluate proposals and qualifications*** – Have a committee of knowledgeable people evaluate the ability of prospective auditors to effectively carry out the audit.
- ***Prepare a written agreement*** – Document the expectations of both the entity and the auditor.
- ***Monitor the auditor's performance*** – Periodically review the progress of the audit.

Several important points to add to the Audit Forum’s guidance: As part of planning the procurement process, auditees should include information on the audit standards that apply to the audit in the request for proposal, and they can obtain this information from the contract with the granting agency or by contacting the granting agency. When the auditee does business with more than one granting agency, the auditee needs to ensure that the audit will satisfy the audit requirements of all of the granting agencies. The auditor also needs to confirm that the type of audit the auditee describes will meet the applicable requirements ([Section 2.2.2](#)).

Also, as part of evaluating the proposals, the auditee should confirm that the auditor has the necessary qualifications to perform the audit. Some of the things an auditee should do include checking the Wisconsin Department of Safety and Professional Services website at www.wisconsin.gov to confirm that the auditor is licensed as a Certified Public Accountant, requesting that the auditor provide a copy of the most recent external quality control review report (peer review report), and contacting other auditees that the auditor has audited to find out whether they were satisfied with the auditor's performance.

2.1.6 Prepare financial statements and other report elements

The auditee is responsible for preparing certain elements that go into an audit reporting package:

<i>Report element</i>	<i>Reporting package</i>	
	<i>Program audit</i>	<i>Single audit</i>
Financial Statements of the Overall Agency	No	Yes
Schedule of Expenditures of Federal and State Awards	Yes ¹	Yes
Additional Supplemental Schedules Required by Granting Agencies	Yes	Yes
Schedule of Prior Audit Findings	Yes	Yes
Corrective Action Plan	Yes	Yes

All of the report elements applicable to the type of audit must be included in the audit reporting package that is sent to the granting agency in order for the reporting package to be considered to be complete.

2.1.7 Take corrective action for audit findings

A significant part of the value of the audit process is the opportunity to improve operations through taking corrective action for audit findings. The auditee shall follow up and take corrective action on audit findings and report these actions in the schedule of prior audit findings and corrective action plan.

The auditee shall also cooperate with granting agencies during the audit review and resolution process. Granting agencies review the audit issues and the auditee's corrective action plan and status of prior audit findings to determine whether they are satisfied with the auditee's actions. Granting agencies may negotiate any disallowances and method of reimbursement with the auditee, depending on the nature of the finding. Also, granting agencies may initiate sanctions if auditee does not cooperate with audit collection/review/resolution efforts ([Section 1.7](#)).

2.1.8 Send audit reporting package to granting agency(ies)

The auditee is responsible for sending a complete audit reporting package to each granting

¹ Audit reports for program audits need to include the financial statements of the program. In most cases, this will be the Schedule of Expenditures of Federal and State Awards.

agency by the audit due date ([Section 1.6](#)). See [Chapter 4](#) for elements of a complete audit reporting package and [Chapter 5](#) for options for sending reporting packages to granting agencies. Mailing addresses for state granting agencies are in the respective appendices to these *Guidelines* (online at www.ssag.state.wi.us).

Granting agencies may initiate sanctions if auditee does not send the audit reporting package within the required timeframe ([Section 1.7](#)).

2.1.9 Follow audit report retention requirements

The auditee shall retain copies of the single audit report and supporting documentation for at least three years from their issuance or until all audit findings have been resolved by the respective granting agencies, whichever is longer.

2.2 The auditor

The auditor has several responsibilities: being qualified to perform the audit ([Section 2.2.1](#)), performing the audit in accordance with applicable standards ([Section 2.2.2](#)), preparing certain report elements ([Section 2.2.3](#)), retaining workpapers ([Section 2.2.4](#)), and providing access to the workpapers ([Section 2.2.5](#)).

2.2.1 Be qualified to perform an audit according to the applicable standards

Auditors should take engagements to perform audits involving state or federal pass-through funding from state agencies only if they have the training and experience to perform audits in accordance with the applicable standards. These standards include auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations,” and the *State Single Audit Guidelines*, complete with the appendices to the *Guidelines*. Granting agencies may require additional standards by contract.

In addition, the auditor must:

- Be licensed by the State of Wisconsin as a certified public accountant, as required by Wis. Stat. 442 and *Government Auditing Standards*. Mobility and Wisconsin Statute 442 (4) allows for licensees of other states to perform audits if all conditions of referenced paragraph are met.
- Possess the technical qualifications to perform an audit involving government programs, including continuing professional education, as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Undergo an external quality control review (peer review) at least once every three years and make the report on the quality control review available to the auditee and to granting agencies upon request, as required by *Government Auditing Standards*.

2.2.2 Perform the audit in accordance with applicable standards

The auditor shall perform the audit in accordance with the applicable audit standards ([Chapter 3](#)), including auditing standards generally accepted in the United States of America, *Government*

Auditing Standards, OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations,” and the *State Single Audit Guidelines*, complete with the appendices to the *Guidelines*. In addition, granting agencies may require additional standards by contract. The granting agency and the Department of Administration can assist the auditee and auditor in identifying the applicable audit standards.

The auditee should specify the audit standards that are applicable to the audit in the engagement agreement ([Section 2.1.5](#)). However the auditor might identify different or additional standards while planning the audit. In these situations, the auditor should work with the auditee to amend the engagement agreement to indicate the appropriate audit standards.

2.2.3 Prepare elements of the audit reporting package

The auditor is responsible for preparing certain elements that go into an audit reporting package, including:

<i>Report element</i>	<i>Reporting package</i>	
	<i>Program audit</i>	<i>Single audit</i>
Opinion on General-Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards	No	Yes
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	No	Yes
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Guidelines	No	Yes
Opinion on the Financial Statement of a Federal and State Program-Specific Audit Option Under OMB Circular A-133 and the State Single Audit Guidelines	Yes	No
Report on Compliance with Requirements Applicable to the Federal and State Program and on Internal Control Over Compliance in Accordance with the Program-Specific Audit Option Under OMB Circular A-133 and the State Single Audit Guidelines	Yes	No
Schedule of Findings and Questioned Costs	Yes	Yes
Management Letter ¹	Yes, if issued	Yes, if issued

¹ The Management Letter is not a required report element, but if one was issued, a copy must be included with the report materials sent to the granting agency .

All of the report elements applicable to the type of audit must be included in the audit reporting package that is sent to the granting agency in order for the report to be considered to be complete. All reports should be prepared in accordance with the most recent guidance from the AICPA.

2.2.4 Retention of working papers

The auditor shall retain working papers and reports for a minimum of five years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the granting agency to extend the retention period. Laws, regulations, and contracts for programs may require longer extension periods. When the auditor is aware that the auditee or a granting agency is contesting an audit finding, the auditor shall contact the parties contesting the audit finding for guidance prior to destruction of the working papers and reports.

2.2.5 Access to workpapers

The auditor shall make audit workpapers available upon request to the auditee, or granting agency or their designee as part of performing a quality review, resolving audit findings, or carrying out oversight responsibilities. Access to working papers includes the right to obtain copies of working papers.

2.3 The granting agency

Granting agencies have several roles and responsibilities in the audit process. Granting agencies advise auditees on federal and state law ([Section 2.3.1](#)), require auditees to provide access to records ([Section 2.3.2](#)), prepare audit guidance and funding information for the granting agency's programs ([Section 2.3.3](#)), and provide technical assistance ([Section 2.3.4](#)). Granting agencies also collect audit reports ([Section 2.3.5](#)), review the audit reports and resolve findings ([Section 2.3.6](#)), take additional steps to promote audit quality when warranted ([Section 2.3.7](#)), and notify other granting agencies of irregularities ([Section 2.3.8](#)). Recipients of state or pass-through funding have granting agency responsibilities if they subcontract the funding to other agencies.

The granting agency's activities described in this part may not be needed in all cases. Granting agencies should assess the risks associated with inadequate audits and devise a strategy to address these risks. For example, providing technical assistance and reviewing audit reports are likely to always be necessary, while occasionally performing reviews of the workpapers for a sample of audits can be very helpful in assessing whether the granting agency needs to update its audit guidance.

Audits have inherent limitations as a tool for monitoring subrecipients due to the timing and nature of auditing. Therefore, although the focus of these *Guidelines* is on audit, granting agencies should not rely just on audits to ensure that their subrecipients are administering programs effectively and are complying with the program requirements. Some of the possible monitoring efforts include:

- Providing technical assistance to the provider on understanding and meeting the granting agency's expectations.
- Reviewing financial reports and claims for reimbursement for reasonability and mathematical accuracy before authorizing payment.

- Requiring supporting documentation for claims for reimbursement.
- Reviewing performance reports and correlating them to financial reports and claims for reimbursement.
- Making site visits to observe services being delivered and to review program records.
- Surveying the people served by the program (or their families or caseworkers) on their satisfaction with services and responding to complaints about inadequate services.
- Following up on complaints from whistle-blowers.

2.3.1 Advise auditees on federal and state law

The granting agency should advise auditees of requirements of federal and state laws, regulations, and contracts, as well as any supplemental requirements required by the granting agency.

2.3.2 Require auditee to provide access to records

The granting agency should require each auditee to permit the granting agency and auditors to have access to the records and financial statements.

2.3.3 Prepare information for granting agency's programs

Each granting agency is responsible for preparing audit guidance and funding information to auditees and auditors on the granting agency's programs.

- **Audit guidance** – The granting agency is responsible for specifying which subrecipients are subject to the *State Single Audit Guidelines*, which programs are included in the scope of the audit, which programs are designated to be Type A or state major, and which audit procedures should be performed for the granting agency's programs. Granting agencies should periodically analyze their audit requirements to ensure that the requirements are effective and that their costs do not outweigh their benefits. Granting agencies should solicit input from auditees and auditors in assessing and updating their audit requirements.
- **Funding information** – Auditees and auditors need to know how a program is funded in order to identify the applicable standards and properly plan and perform an audit. The granting agency is responsible for providing funding information for its programs:
 - *State awards* – The granting agency, the name of the program, and the state identification number for the program.
 - *Federal pass-through awards* – The *Catalog of Federal Domestic Assistance (CFDA)* title and number, award name and number, award year, if the award is research and development, the name of the federal agency, and, when applicable, the name of the state pass-through agency. When some of this information is not available, the granting agency shall provide the best information available to describe the federal award.

Each granting agency is responsible for maintaining audit guidance and funding information for its programs in an appendix to these *Guidelines* (online at www.ssag.state.wi.us).

2.3.4 Provide technical assistance to auditees and auditors

The granting agency should provide technical assistance to auditees and auditors upon request. The granting agency should designate a person who is knowledgeable about the granting agency's programs and audit policies to be the granting agency's contact person for audit issues and to provide training to auditees and auditors on audit issues. In addition, the granting agency can refer questions to the Department of Administration.

2.3.5 Identify agencies that need audits and collect those audits

Each granting agency should maintain a system for identifying agencies that need to have audits and for collecting those audits in a timely manner. ([Section 2.3.6](#) includes a description of the elements of a tracking system for an audit collection and review process.) The granting agency should consider sanctions when a subrecipient does not send its audit report to the granting agency by the audit deadline ([Section 1.6](#) and [Section 1.7](#)).

2.3.6 Review the audit report and resolve audit findings

The granting agency should review all audit reports for issues related to its programs and resolve those issues.

- ***Identify issues affecting granting agency's programs*** – Desk review by a granting agency involves identifying audit issues related to its programs. Audit issues include audit findings (reportable conditions, material weaknesses, findings of noncompliance, questioned costs, or fraud), weak financial condition, or any other issue of concern to the granting agency.
- ***Issue management decision within 6 months of receipt of audit*** – One of the primary goals of audit resolution is to correct the underlying problems that lead to audit findings. Some problems are not cost effective to correct, and both the auditee and granting agency need to consider whether the resources spent to correct a problem are worth the benefit expected to result from correcting the problem. If the matter is something that needs to be changed and the auditee doesn't correct it, the granting agency may use disallowances to persuade the auditee that it needs to take corrective action. The granting agency may take other steps, such as use special contract or monitoring methods or discontinue contracting with the auditee ([Section 1.7](#)).

The amount of attention the granting agency gives a particular issue will depend on the granting agency's assessment of the potential adverse effect on its programs and the people served by those programs. An issue is considered to be resolved when the auditee and granting agency reach agreement on how the auditee will correct the problem. Although resolution may include repayment of funding to the granting agency, resolution is most effective when it focuses on correcting the underlying problem that resulted in the finding. The granting agency may decide that the auditee's corrective action plan adequately addresses the issue, in which case additional follow up is not needed. On the other hand, the granting agency should follow up with the auditee if the auditee does not provide a corrective action plan or if the corrective action plan does not adequately address the issue.

Timeliness of audit review and resolution activities is important: program managers need to know what is happening with their programs, auditees need to have feedback on

corrective action, and auditors need feedback on audit procedures. Therefore, the granting agency should make a reasonable effort to complete its review of the audit report and notify the auditee of the completion of the review within six months of receipt of the report. The granting agency should document any reason(s) for delay in completing the review beyond the six-month goal for completing the review.

- ***Document desk review and resolution of audit findings*** – The granting agency should document its desk review and resolution activities. The granting agency’s auditor will review the granting agency’s monitoring efforts for subcontracting, which include review and resolution of audit reports, as part of the granting agency’s audit.

An audit review checklist serves a dual purpose of guiding a reviewer through the desk review and documenting the results of the review. An example of an audit review checklist is online at www.ssag.state.wi.us.

- ***Maintain a system for tracking the status of audit reports*** – The granting agency should have a system for tracking receipt, review, and resolution of audit reports. Elements of such a system may include:
 - Auditee name, address, telephone number, and contact person.
 - Fiscal year, audit period.
 - Audit report due date ([Section 1.6](#) and [Section 2.3.5](#)).
 - Date the audit report was received ([Section 2.3.5](#)).
 - Independent auditor name, address, telephone number, and contact person.
 - Results of desk review.
 - Summary of findings and their resolution.

In addition, the granting agency’s files should facilitate easy retrieval of audit reports, correspondence, desk review checklists, peer reviews, and quality control review checklists.

- ***Adjust own records*** – The granting agency should consider whether subrecipient audits require adjustment of the granting agency’s own records.

2.3.7 Consider additional steps to promote audit quality

The previous parts of this section all contribute to audit quality. In addition, the granting agency should consider additional steps to promote quality audits, such as confirming that the auditor is licensed, obtaining and reviewing peer review reports, and reviewing auditor’s workpapers.

- ***Confirm auditor’s license*** - The granting agency may check with the Wisconsin Department of Safety and Professional Services website at <http://dsps.wi.gov/Home> to confirm whether the auditor is licensed as a certified public accountant.
- ***Obtain and review peer review reports*** – The granting agency may request copies of auditors’ peer review reports (also known as external quality control reviews).
- ***Review auditor’s workpapers*** – The granting agency may perform its own quality control reviews of auditor’s workpapers to determine whether the workpapers document that the auditor followed applicable audit standards. In many cases, the granting agency can rely on the peer review for the auditor’s compliance with the requirements of

auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations” and focus on the audit policies in the *State Single Audit Guidelines* during the quality control review. An example of a workpaper review checklist is online at www.ssag.state.wi.us.

2.3.8 Notify other granting agencies of irregularities

The granting agency should inform other affected granting agencies and appropriate law enforcement officials of any direct reporting by the auditee or its auditor of irregularities or illegal acts, as required by *Government Auditing Standards* or laws and regulations.

Original Section 2.4 on state cognizant agency has been deleted. Subsequent paragraphs in the 2. Series have been renumbered.

2.4 The Department of Administration

The State Controller’s Office (SCO) in the Department of Administration provides overall coordination of the state’s single audit activities.

2.4.1 Maintain the *State Single Audit Guidelines*

The SCO is responsible for developing and maintaining the *State Single Audit Guidelines*.

2.4.2 Provide assistance

The SCO is responsible for providing assistance on audit issues to auditees, auditors, and state granting agencies.

2.4.3 Track auditor quality issues

The SCO shall be notified when a state grantor agency requests copies (from the audit firm) of the auditor’s peer review report or conduct their own quality control review (QCR) of the auditor’s workpapers. When provided peer review reports or quality control reviews, the SCO will maintain a directory of auditors showing the status of peer reviews, workpaper reviews performed by state granting agencies, and any debarment action taken ([Section 2.3.7](#)). The SCO shall make the listing available to state granting agencies upon request.

2.5 The Legislative Audit Bureau

The Legislative Audit Bureau conducts single audits of state agencies. As part of the state single audit, the Legislative Audit Bureau tests whether the state is complying with the subrecipient audit responsibilities of OMB Circular A-133 and the *State Single Audit Guidelines*.

3 Performing an audit

Audits must be performed in accordance with the applicable audit standards, including the *State Single Audit Guidelines* ([Section 3.1](#)). The *Guidelines* extend the federal single audit concepts in OMB Circular A-133 to state programs, with certain modifications to reflect the state funding environment ([Section 3.2](#), [Section 3.3](#), [Section 3.4](#), and [Section 3.5](#)). This enables auditors to apply knowledge and resources for A-133 to their audits of state programs. In addition, this chapter includes discussion of the auditor's consideration of fraud in a financial assistance environment ([Section 3.6](#)).

3.1 Applicable audit standards

All single audits involving state or federal pass-through funds shall be performed in accordance with the following standards:

- Auditing standards generally accepted in the United States of America.
- *Government Auditing Standards* (also known as generally accepted government auditing standards and the Yellowbook).
- Single Audit Act Amendments of 1996.
- OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," with modifications described in these *Guidelines* for application of A-133 to state programs.
- *State Single Audit Guidelines*, including the appendices to the *Guidelines* (online at www.ssag.state.wi.us).
- Other standards specified by the granting agency.

3.2 Financial statements

The auditor shall determine whether the financial statements are presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America. For single audits, the financial statements consist of the financial statements of the overall entity, the schedule of expenditures of federal and state awards, and the additional supplemental schedule required by granting agencies, when applicable. For program audits, the financial statements consist of the financial statements of the program, which is usually the schedule of expenditures of federal and state awards, and the additional supplemental schedule required by granting agencies, when applicable.

3.3 Internal control

For all audits, include state programs in the procedures to obtain an understanding of internal control sufficient to support a low assessed level of control risk for each major program, which are described in Section 500(c) of OMB Circular A-133.

3.4 Compliance

For all audits, include state programs and state laws and regulations when determining whether the auditee has complied with laws, regulations, and the provisions of contracts or grant

agreements that may have a direct and material effect on each of its major programs, as described in Sections 500(d), 520, and 525 of OMB Circular A-133, with the following exceptions:

- ***Compliance requirements in appendices to Guidelines and the contract*** – The auditor shall apply the general and specific program audit procedures described in the appendices to these *Guidelines* (online at www.ssag.state.wi.us) and/or in the contract.
- ***Risk-based approach for identifying state major programs (single audits only)*** - The auditor shall apply the risk-based approach from OMB Circular A-133 to identify which programs will be tested as state major programs, with the following modifications:
 - Consider prior audit experience with state programs when assessing whether the auditee is a low risk agency for purposes of the percentage-of-coverage rule for state program.
 - For programs that are state funded, the threshold for Type A programs is \$100,000.
 - For programs that are state funded, the threshold for Type B programs is \$25,000.
 - The granting agency may designate state or federal pass-through programs to be automatically considered to be Type A state programs, and these programs are tested as state major unless the auditor assesses them to be low-risk, but at least once every three years. In addition, granting agencies may designate programs to be state major, so that these programs are always tested when the auditee has the programs. State granting agencies will identify designated Type A and designated state major programs in their appendices to these *Guidelines* (online at www.ssag.state.wi.us). The incremental cost of auditing declared major programs may be charged to the respective programs ([Section 1.4](#)).
 - Workpaper documentation should include, for each program: the name of the program, the amounts of expenditures, whether the program is Type A or Type B, the factors considered in the risk assessment, the auditor's assessment of the risk for each factor, and the overall assessment of risk. The workpapers should also show how risk is reflected in the testing for high risk programs.
 - When the state program is the state share of a commingled federal and state program, the auditor can rely on the risk assessment for the federal share and does not need to apply a separate risk assessment for the state share.
 - The state share of commingled federal and state programs can be counted toward the 25% or 50% percentage-of-coverage threshold on the state side if the program is tested as major on the federal side.
 - For a low risk agency, if a current year reportable condition, material weaknesses, or material noncompliance indicates the potential for a system-wide problem (as opposed to a one-time or grant specific issue), the auditor needs to expand testing to cover 50% of state program expenditures, i.e. no longer consider the agency to be low risk.

3.5 Audit follow-up

For all audits, include findings related to state programs when following up on prior audit findings as described in Section 500 (e) of OMB Circular A-133.

3.6 Consideration of fraud in a financial assistance environment

All audits performed under the *State Single Audit Guidelines* need to be performed in accordance with auditing standards generally accepted in the United States of America, including consideration of fraud. This part includes discussion of the nature of fraud in a financial assistance environment and the audit procedures to address risk of fraud.

(See [Section 2.1.4](#) for the definition of fraud and a description of the auditee's responsibility for preventing and detecting fraud.)

3.6.1 Auditor's responsibility

The *State Single Audit Guidelines* require consideration of fraud in the administration of state funded programs and federal pass-through programs as part of every audit performed in accordance with the *Guidelines*. In addition, auditors have a responsibility to detect material misstatements of the financial statements, whether caused by error or by fraud. SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, clarifies the auditor's responsibilities and requires the auditor to specifically address the risk of material misstatement of the financial statements due to fraud as a part of every audit. SOP 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, addresses the application of SAS No. 82 to single audits (i.e. audits in accordance with OMB Circular A-133). According to the SOP, "When the auditor is identifying risk factors and other conditions in an audit of financial statements performed in conjunction with a single audit, the auditor's responsibilities under SAS No. 82 are expanded to include (in addition to the risk factors normally associated with financial statements) the consideration of risk factors associated with the receipt of federal awards that could present a material misstatement of the financial statements."

Reasonable assurance and materiality

The auditor is expected to obtain reasonable assurance that material misstatements resulting from fraud are detected during the audit. Two things need emphasis: First, the auditor obtains *reasonable assurance*, because absolute assurance is nearly impossible. Fraud often involves collusion or falsified documentation that can be very difficult to detect. In addition, auditors must use judgment when identifying and evaluating risk factors.

Second, a special consideration for audits involving government funds is a lower level of *materiality*. Agencies that receive government financial assistance have an obligation to honor the public trust. The public trust demands that agencies follow the very highest standards when using public funds. For these reasons, the state considers all fraud to be material and requires that the auditee report all fraud to the granting agency. So, while the auditor is expected to obtain reasonable assurance that material misstatements resulting from fraud are detected, the auditor is also responsible for ensuring that *any* fraud the auditor is aware of has been reported to the granting agency.

From the point of view of state agencies, all fraud is material and should be reported in the Schedule of Findings and Questioned Costs.

Fraud risk factors

A risk of material misstatements due to fraud is always present to some degree. Auditors should specifically assess the risk of material misstatement of the financial statements due to fraud and consider the assessment in designing the audit procedures to be performed. As part of the risk assessment, the auditor should make inquiries to management to 1) obtain management's understanding of the risk for fraud in the agency and 2) determine whether management has knowledge of fraud that has been perpetrated on or within the agency.

SAS No. 82 identifies two types of fraud: misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. It lists examples of fraud risk factors across the two types of fraud that the auditor should consider as part of the audit. Some of the risk factors that are especially relevant in a financial assistance environment include:

- Motivation for management to engage in fraudulent financial reporting.
- Failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. Some specific indicators include:
 - Domination of management by a single person or small group without compensating controls such as effective oversight by the board of directors.
 - Inadequate monitoring of internal controls.
 - Management failing to correct known reportable conditions on a timely basis.
 - Management setting unduly aggressive financial targets and expectations for operating personnel.
 - Management displaying a significant disregard for regulatory authorities.
 - Management continuing to employ an ineffective accounting, information technology, or internal audit staff.
- High turnover of senior management, counsel, or board members.
- Strained relationship between management and the current or predecessor auditor.
- New accounting, statutory, or regulatory requirements that could impair the financial stability or profitability of the entity.
- Rapid changes in the industry.
- Significant related party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- Significant, unusual, or highly complex transactions, especially those close to year end, that pose difficult "substance over form" questions.
- Unusually rapid growth or profitability, especially compared with that of other companies in the same industry.
- Unusually high dependence on debt or marginal ability to meet debt repayment requirements; debt covenants that are difficult to maintain.

- Threat of imminent bankruptcy or foreclosure.
- Adverse consequences on significant pending transactions, such as a business combination or contract award, if poor financial results are reported.

Audit procedures

The auditor decides whether the planned audit procedures are adequate to address the fraud risk identified. If they are, no additional audit procedures are needed. If they are not, the auditor should consider modifying the nature, timing or extent of audit procedures.

If the auditor determines that there is a misstatement that is, or may be, the result of fraud, the auditor should:

- Consider the implications for other aspects of the audit.
- Discuss the matter and the approach for further investigation with an appropriate level of management.
- Attempt to obtain additional evidence to determine whether material fraud occurred or is likely to have occurred, and if so, the effect on the financial statements and the opinion.
- If appropriate, suggest that management consult legal counsel.

3.6.2 Reporting fraud to management

When the auditor determines that evidence of fraud may exist, the auditor should discuss it with the appropriate level of auditee's management. Fraud involving senior management or fraud that causes a material misstatement of the financial statements should be reported to the appropriate committee of the auditee's board, such as the audit committee or finance committee.

3.6.3 Reporting fraud to the granting agency

Both the auditee and the auditor have responsibility for reporting fraud to the granting agency. The auditee's reporting responsibility is described in [Section 2.1.4](#).

Auditors are responsible for reporting fraud to the granting agency in two situations:

- If the auditee has not reported the fraud to the granting agency, the auditor should:
 - Inform the auditee that the auditee needs to report the fraud to the granting agency in writing, with a copy to the auditor so the auditor knows the auditee has informed the granting agency.
 - If the auditee does not report to the granting agency, the auditor should report the fraud to the granting agency.
- If the auditee has not taken timely and appropriate steps to remedy the fraud, the auditor should report that failure to the granting agency.

The auditor should follow guidance in auditing standards generally accepted in the United States of America and *Government Auditing Standards* for determining when fraud needs to be reported in the audit report.

4 Preparing an audit reporting package

Audit reporting packages for program audits and single audits performed in accordance with the *State Single Audit Guidelines* must include certain report elements. ([Section 1.3](#) has guidance on determining whether a program audit is appropriate.) All of the report elements applicable to the type of audit must be included in the audit reporting package that is sent to the granting agency in order for the reporting package to be considered to be complete. Each of these reporting elements is described in this chapter.

The reporting requirements are consistent with those of OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations” whenever possible. Since agencies that have audits in accordance with the *State Single Audit Guidelines* all need to have audits in accordance with A-133, this reduces the potential for conflict between the two sets of reporting requirements. It also means auditors can use the literature on A-133 reporting for guidance on reporting in accordance with the requirements of the *Guidelines*.

- **Report elements prepared by the auditee** - The auditee is responsible for preparing report elements that convey information on the auditee’s organization and administration of programs funded by state agencies ([Section 2.1.6](#)). The auditor’s responsibility is to assess and report on the reliability of the information in the auditee’s reports ([Chapter 3](#)).

<i>Report element</i>	<i>Reporting package</i>	
	<i>Program audit</i>	<i>Single audit</i>
Financial Statements of the Overall Agency	No	Yes
Schedule of Expenditures of Federal and State Awards	Yes ¹	Yes
Additional Supplemental Schedule Required by Granting Agency	Yes	Yes
Schedule of Prior Audit Findings	Yes	Yes
Corrective Action Plan	Yes	Yes

- **Report elements prepared by the auditor** - The audit reporting package also must include the auditor’s opinion on the financial statements and auditor’s reports on the results of the audit. Model auditor’s reports may be found at the following:

- [State and Local Government Financial Statement Report Illustrations](#)
[Report Illustrations \(including a financial statement report illustration for a government and a not-for-profit entity\)](#)
[OMB Circular A-133 Report Illustrations](#)

- Auditors must modify the reports as needed to suit the auditee’s circumstances using the most current guidance in documents such as the American Institute of Certified Public Accountant’s Illustrative Reports, Statement of Position 98-3 “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards,” and the *Codification of Statements on Auditing Standards*.

¹ Audit reporting packages for program audits need to include the financial statements of the program. In most cases, this will be the Schedule of Expenditures of Federal and State Awards.

5 Sending the audit report to granting agencies

The auditee is responsible for ensuring that each granting agency receives the complete audit reporting package ([Section 5.1](#)), letter notification ([Section 5.2](#)), or online notification ([Section 5.3](#)) by the audit due date ([Section 1.6](#)).

The mailing addresses for sending audit reporting packages to state granting agencies are in the respective appendices to these *Guidelines* (online at www.ssag.state.wi.us). State granting agencies will accept reporting packages electronically.

5.1 Audit reporting package

The auditee must send a complete copy of the audit reporting package to each granting agency unless letter notification ([Section 5.2](#)) or online notification ([Section 5.3](#)) is appropriate. An audit reporting package is considered to be complete when it includes all of the report elements applicable to an audit of its type ([Chapter 4](#)).

5.2 Letter notification

Some state granting agencies accept letter notification instead of a complete audit reporting package when audits are “clean” and when the audit information is not needed for other specific purposes, such as closing out a grant or claiming federal funding. Granting agency policies on letter notification are in the respective appendices to these *Guidelines* (online at www.ssag.state.wi.us).

Auditees can send a letter instead of an audit reporting package to state granting agencies that accept letter notification when all of the following conditions are met:

- The audit was performed in accordance with the applicable federal, state, and professional standards.
- There are no significant financial difficulties or other issues affecting state or federal pass-through awards, including substantial doubt as to the auditee’s ability to continue as a going concern, related party transactions involving state or federal pass-through programs from state granting agencies, and profit or excess revenue exceeding allowable cost limits.
- There are no material noncompliance issues, no material internal control weaknesses, and no reportable conditions related to general agency operations.
- There are no other audit issues or prior audit issues related to specific state or federal pass-through programs.

The letter must include the auditor’s name and address and the signature of a top official of the auditee attesting to the accuracy of the information conveyed with the letter. The auditee must also send a copy of the “Schedule of Findings and Questioned Costs” with the letter.

Granting agencies that accept letter notification have the right to receive a complete copy of the audit reporting package upon request.

5.3 Online notification

If the granting agency accepts online notification of the audit results, the auditor enters data affirming that the audit met the applicable standards and disclosing the results of the audit into an online checklist. State granting agencies which accept online notification have the right to receive a complete copy of the audit reporting package upon request. Granting agency policies on letter notification are in the respective appendices to these *Guidelines* (online at www.ssag.state.wi.us).