

Ask me Anything: Single Audit Prep and Compliance

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Quick recap

This training session focused on preparing for single audits, presented by Ashley Lucht and Bob Fitch from Quantified Ventures. The presentation covered the differences between financial audits and single audits, explaining that single audits are required for non-federal entities that incur \$1 million or more in federally reimbursable expenses in its fiscal year. Bob detailed the components of single audits, including compliance testing, internal controls, and the Schedule of Expenditures of Federal Awards (SEFA), noting that the cost of single audits typically doubles the cost of regular financial audits. The session included discussion of audit findings, with significant deficiencies versus material weaknesses, and emphasized that findings are meant to be supportive rather than punitive. The presentation concluded with questions from participants, including a later arrival seeking guidance on combining SRF funding with other federal programs for a water project in Montana.

Summary

Single Audit Preparation Training

Ashley introduced the session on preparing for a single audit, noting that the training was brought to participants by the Environmental Finance Network with support from the EPA. She introduced her colleague Bob Fitch, with whom she previously worked at the state of Vermont in the SRF program and now works at Quantified Ventures. Ashley mentioned she would handle the introductory remarks while Bob would present the main content on single audit preparation, and she encouraged participants to ask questions through the chat.

Financial Audit Basics Presentation

Bob presented on financial audit basics, focusing on single audits and their requirements. He explained that entities meeting certain federal spending thresholds (\$1 million or more) are required to undergo single audits, which include both financial audit components and compliance testing for federal funds. Bob outlined the four types of audit opinions (unmodified, qualified, adverse, and disclaimer) and discussed the regulatory framework governing single audits, including the 2 CFR Part 200 Subpart F requirements. He also covered the process for determining whether programs are major or minor programs, which affects the scope of the audit.

Type A vs Type B Programs

Bob explained the differences between Type A and Type B programs in single audits, noting that Type A programs undergo more comprehensive compliance scrutiny, while Type B programs have reduced checks based on risk levels. He detailed the components of compliance testing, including internal controls and specific grant requirements, emphasizing the importance of documenting processes and controls. Bob also highlighted that auditors aim to improve internal controls through recommendations rather than simply identifying weaknesses.

Small Community Audit Transition Challenges

Bob discussed the challenges small communities face when transitioning from financial audits to single audits, particularly regarding internal controls and compliance tracking. He emphasized the importance of creating a Schedule of Expenditures of Federal Awards (SEFA) to properly track expenses by program, noting that auditors can help small systems set this up. Bob also highlighted the need for written policies, particularly for procurement, and stressed the importance of reviewing specific grant terms and conditions rather than simply accepting them.

Expense Tracking and Audit Findings

Ashley and Bob discussed the importance of tracking expenses based on when they were incurred rather than when reimbursement was received, emphasizing that auditors focus on the timing of actual costs. They explained the two main types of audit findings: significant deficiencies and material weaknesses, noting that while findings can lead to modified audit opinions, they are meant to be supportive and identify areas for improvement rather than punitive measures. The discussion concluded with information about creating corrective action plans for findings and the importance of proper expense tracking by grant.

Auditing Deficiencies and Rotation Criteria

Ashley and Bob discussed the criteria for determining significant deficiencies versus material weaknesses in auditing. Bob explained that the distinction depends on the potential impact and likelihood of issues occurring, with auditor judgment playing a significant role. They also addressed the frequency of auditor changes, with Bob suggesting a 5-year rotation for optimal balance between continuity and preventing complacency. The conversation touched on the cost differences between single audits and regular financial audits, with Bob estimating that single audits might cost approximately double the standard operational costs, though the exact amount varies by state and system size.

Financial Management and Audit Planning

Bob advised auditees to plan their expenses strategically within a single fiscal year to avoid multiple single audits, particularly for large projects spanning multiple years. Or to spread costs over two fiscal years as a strategy to avoid completing a single audit all together.

When asked about auditors, Bob clarified that auditors are not the "bad guys" but rather help ensure compliance with federal requirements, though he humorously suggested the federal government might be the source of the complexity.

SRF Funding for Water Infrastructure

A grant writer from Montana working with a small rural community, joined the meeting late to discuss SRF funding opportunities and how it could work with other funding sources like USDA RD loans for their water infrastructure project. Ashley explained that SRF can work with other federal funding sources as they share similar compliance requirements, though specific state programs may have protective measures. The group discussed various technical assistance options available through EPA's Real Water TA program and recommended they submit a request to connect with local SRF experts. The participant indicated they were working on piecing together multiple funding sources totaling around \$1-2 million for their project, and Ashley suggested considering SRF funding despite potential concerns about terms and conditions.

Disclaimer: this summary was generated using AI but was reviewed and edited by a Human.

From the Chat

Q: Any insights/experiences from small communities that may not have reached the audit threshold, then received funding and reached the audit threshold. Any common problem areas/topics that seem to show up (if this is a common occurrence at all)?

A: The answer to this question is summarized in the 'Audit Planning' section above.

C: There was just a long webinar about USDA loans and SRF. Ashley, were you involved in that one or was that EPA? It was very in depth and about 2 hours long. Might be worth checking out!

A: Sorry, it was WIFIA and SRFs. The title was "How WIFIA and SRFs can Power Your Water Infrastructure Projects"

Q: Have you contacted your RCAP affiliate? And or submit a project through WaterTA through EPA. They can help you submit an SRF application and/or look for other funding.

A: <https://www.epa.gov/water-infrastructure/forms/real-water-technical-assistance-realwaterta-request-form>