Audit-Ready, Audit-Worthy

July 28, 2026 | 2:00 PM

MTAP Summer Compliance Series

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DEPARTMENT OF BUDGET AND MANAGEMENT

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Before We Begin

Session Details

- 60-minute interactive webinar
- Questions: Use the Q&A box at any time
- Chat: Share your answers to discussion prompts
- Polls: Three polls throughout, no wrong answers!

Resources

- Slides and recording will be shared after the session
- MTAP website: dbm.maryland.gov/mtap
- Questions after today: MTAP Question Portal

Upcoming Summer Series Schedule

Session 3: Document, Document, Document!

August 25, 2026

Session 4: Procurement Systems and Practice

September 29, 2026

Agenda

1. Do You Need an Audit? Required Audits, Requested Audits, and Thresholds
2. What Auditors Are Looking For: The Most Common SLFRF Findings
3. Building Your Internal Controls Framework
4. The 48-Hour Audit Test

Opening Poll: What Does Audit-Ready Mean to You?

Respond using the poll panel now. There are no wrong answers!

A	We have already gone through a Single Audit or ACEE related to SLFRF
B	We know an audit is coming but we haven't started preparing yet
C	We're not sure if we need an audit
D	We don't need to submit a Single Audit or ACEE, but want to know what happens if an audit is requested

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PART 1: Audit Obligations

Required audits for those who spend enough, and additional audits whenever requested

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Audit Obligations Under SLFRF

Who Has Audit Obligations?

Every SLFRF recipient that expends federal funds above certain thresholds has audit obligations. This applies regardless of how your funds were categorized, Revenue Loss or otherwise.

Two Required Paths

- Single Audit (2 CFR Part 200, Subpart F): Required when total federal expenditures across ALL federal awards meet or exceed the threshold for your fiscal year
- Alternative Compliance Examination Engagement (ACEE): A streamlined SLFRF-specific option for eligible recipients who do not otherwise need a full Single Audit

Separately: An Audit Can Be Requested at Any Time

Meeting or missing a threshold only determines whether an audit is required. Treasury, an Inspector General, or another oversight body can request a review of any award at any time, including after closeout. A finding in a Single Audit or ACEE can also prompt a broader look. This is why records are retained for five years rather than until the audit you expected has passed.

Key framing:

These thresholds apply to your TOTAL federal expenditures, not just SLFRF. If you receive other federal grants, those count too.

Single Audit

What is a Single Audit? A Single Audit is a comprehensive, organization-wide audit of an entity's financial statements and federal awards required under 2 CFR 200, when total federal expenditures meet or exceed $1,000,000 in a single fiscal year. **For fiscal years beginning prior to October 1, 2024, the Single Audit threshold was $750,000, and for fiscal years beginning after this date, the threshold is $1,000,000.**

What the Single Audit Covers

- A Compliance with federal program requirements
- Design AND operating effectiveness of internal controls
- Financial statements and use of funds
- Any questioned costs or unallowable expenditures

Financial Thresholds

- Recipient must expend $1,000,000 or more in total federal awards during their fiscal year
- Total SLFRF Award exceeds $10 million
- Even if SLFRF is below $10 million, a Single Audit is required when other federal expenditures (excluding SLFRF) are greater than $1,000,000

Submission Guidelines

In accordance with 2 CFR Part 200, Subpart F, the results of a Single Audit must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Where It Goes

- Submitted to the Federal Audit Clearinghouse (FAC)
- Results shared with Treasury as your federal cognizant agency

Important

Auditors look backwards. An audit can occur years after closeout. Findings after closeout can still result in repayment requirements.

The ACEE: An Alternative for Some SLFRF Recipients

What is the ACEE? The Alternative Compliance Examination Engagement (ACEE) is a streamlined, SLFRF-specific audit option created by Treasury for recipients who do not otherwise require a full Single Audit. Eligible SLFRF recipients may use the ACEE in lieu of a Single Audit when their audit requirement arises solely from SLFRF expenditures directly awarded by Treasury.

What the ACEE Covers

- Narrower scope than a full Single Audit (focused on SLFRF compliance)

Financial Thresholds

- Recipient must be an NEU that expended at least $1,000,000 in total federal awards during their fiscal year
- Total SLFRF Award must be at or below $10 million
- Expenditures of other federal awards (excluding SLFRF) must be less than $1,000,000

Submission Guidelines

The submission deadline for the ACEE is the same as those for Single Audits. Results of the ACEE must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Where It Goes

- Submitted directly to U.S. Treasury, NOT to the Federal Audit Clearinghouse
- Uses Treasury's ACEE instructions and submission portal

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Quick Check-In Poll

True or False, respond in the poll.

We will discuss the answer before moving on.

“ The Single Audit threshold applies only to your SLFRF expenditures, not your other federal grants. ”

A True – only SLFRF counts towards the threshold

B False – ALL federal expenditures count toward the threshold

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PART 2:
What Auditors Are Looking For

The most common SLFRF findings and why they happen

Common SLFRF Audit Findings

What Auditors Are Actually Seeing

1. Weak Internal Controls: Controls may be designed but are not consistently operating
2. Procurement and Contracting: Missing competition documentation, price reasonableness analysis, or conflict of interest disclosures
3. Subrecipient Monitoring: Risk assessments and reporting oversight are informal or incomplete
4. Unallowable or Unsupported Costs: Decisions lack documented judgement under 2 CFR §200.403
5. Reporting Errors: Financial or performance reporting is late, inconsistent, or unsupported
6. Payroll and Time/Effort: Personnel costs not supported by accurate, sufficient documentation

We will take each of these six in turn, what the finding looks like, what the rules require, and practical fixes for a small staff.

Key insight: Findings describe outcomes. Root causes live in system design.

Why Findings Repeat: Gaps Between Policy and Practice

Common Root Causes

- Processes rely on unwritten practices, when the person who knows "how we do it" leaves, institutional knowledge leaves with them
- Controls depend on individual knowledge rather than documented procedures
- Training is not tied to real compliance decisions, staff receive generic onboarding but not SLFRF-specific guidance
- Oversight is inconsistent or unclear, no one owns the review step
- Financial management systems do not support compliance, coding is inconsistent, ledgers are not reconciled regularly

The Critical Distinction

A policy existing on paper is not the same as a control that operates effectively. Auditors evaluate BOTH the design of your controls AND whether staff are actually following them.

When an Auditor Identifies a Problem

- Correct it promptly and document what changed, when, and who now owns the step
- Repeat findings carry more weight than first-time findings, because auditors check whether the prior issue was fixed
- Fix the process, not just the transaction, remediation reduces but does not eliminate audit risk

Findings repeat when controls are documented but not operational.

Audit Finding Deep Dive: Internal Controls

Potential Findings

- Approval authority is not documented in writing
- The same person approves, processes, and reconciles payments (no segregation of duties)
- Controls exist informally but are not written into policies or procedures
- Reviews of SLFRF spending happen ad hoc, not on a defined schedule

What 2 CFR §200.303 Actually Requires

- Recipients must establish and maintain effective internal controls. Controls must safeguard assets, ensure compliance with applicable laws, and prevent fraud, waste, and abuse.

Small Town Practical Fix

- Write a one-page delegation of authority: who can approve what, up to what dollar amount
- Assign a second person to review monthly reconciliations, even informally
- Document the overlap when full segregation is not possible and note the compensating control

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Audit Finding Deep Dive: Procurement and Contracting

Potential Findings

- No documented competitive solicitation for purchases over the micro-purchase threshold
- Price reasonableness analysis is missing from the contract file
- Conflict of interest disclosures not on file for the evaluation team
- SAM.gov debarment check was not performed, or evidence of the check being conducted was not retained

Revenue Loss Note

- Federal procurement standards (2 CFR §§200.317–200.327) do not apply to Revenue Loss expenditures. However, you must still follow your local procurement policies and requirements, and reasonableness still applies.

Practical Fix

- Build a one-page procurement file checklist: solicitation, evaluation, award rationale, price analysis, debarment check, contract, invoices, deliverable sign-off
- Screenshot and date-stamp your SAM.gov debarment check, retain with the contract file

Audit Finding Deep Dive: Subrecipient Monitoring

Potential Findings

- No written risk assessment on file for subrecipients
- Subrecipient agreement does not include required pass-through clauses (2 CFR §200.332)
- Monitoring consists of reviewing invoices only, no review of performance or compliance
- Closeout documentation from subrecipients was not collected

The Contractor vs. Subrecipient Distinction

- This is one of the most common misclassification issues. If the organization is carrying out your grant objectives on your behalf, it is likely a subrecipient. If they are delivering a commercial product or service under a contract, they are a vendor.

Revenue Loss Exception

- Subrecipient monitoring requirements do not apply to Revenue Loss expenditures unless a formal subaward was issued. Document this determination in your file.
    - We will cover this in full in Session 4: Procurement Systems and Practice.

Audit Finding Deep Dive: Unsupported and Unallowable Costs

The 2 CFR §200.403 Test:
Four Criteria Every Cost Must Meet

- **Allowable:** Permitted under SLFRF rules and applicable federal regulations
- **Allocable:** Directly tied to the grant award and its objectives
- **Reasonable:** Would a prudent person pay this price for this good or service under these circumstances?
- **Consistently treated:** Applied the same way across similar programs and time periods

Common Documentation Gaps

- Invoice exists but no approval signature or funding source stamp
- Payment made but deliverable acceptance not confirmed or documented
- Price comparison on file but not retained with the original procurement file
- Cost coded to SLFRF without a written eligibility justification

Rule of Thumb:

If you cannot explain the cost in writing today, an auditor will question it tomorrow.

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Audit Finding Deep Dive: Reporting Errors

Potential Findings

- P&E Report figures do not reconcile to the general ledger
- Obligation and expenditure amounts were entered in the portal but never traced back to source records
- A report was submitted late, or a reporting cycle was missed entirely
- Project descriptions and performance data are generic and cannot be tied to actual activity

What the Requirement Actually Is

- Reporting and compliance are two separate obligations. Submitting a report on time does not make the underlying spending compliant, and clean spending does not excuse a missed report. Reporting continues under the SLFRF Award Terms and Conditions and 2 CFR §200.328 until Treasury confirms your closeout.

How To Fix It

- Reconcile every P&E Report to your general ledger before you submit, and keep the reconciliation in the file
- Save a PDF of each submitted report along with the portal confirmation in your award-level folder
- Keep reporting until Treasury confirms closeout in writing, spending the funds is not the same as being done

Audit Finding Deep Dive: Payroll and Time and Effort

Potential Findings

- Salaries charged to SLFRF were based on a budget estimate that was never reconciled to actual time worked
- A flat percentage of a position charged every pay period with nothing supporting the percentage
- Timesheets exist but are unapproved, or do not identify which funding source paid for the time
- No record showing how an employee split time across SLFRF and other duties

What 2 CFR §200.430 Actually Requires

- Charges for salaries and wages must be based on records that accurately reflect the work performed. A budget estimate alone is not support. Where an employee works across multiple funding sources, the records must show how the time was actually distributed. For Revenue Loss expenditures these federal standards do not apply the same way, but your own payroll records still have to support what was charged.

How To Fix It

- Record SLFRF time on the regular timesheet with the project identified, a separate system is not required
- Get a supervisor approval signature on every timesheet carrying an SLFRF charge
- Never charge a percentage you cannot explain. Compare it to actual timesheets once a year to gather supporting documentation.

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PART 3:
Building Your Internal Controls Framework

Five components. One strong system.

The Five Components of Internal Controls

Required by 2 CFR §200.303 | Based on the GAO Green Book Framework

These five components work together as a system. A gap in one creates vulnerabilities across the others.

1. Control Environment - The tone at the top: leadership commitment to accountability and ethics
2. Risk Assessment - Identifying and analyzing what could go wrong in your grant programs
3. Control Activities - The policies, procedures, and checklists that prevent errors from happening
4. Information and Communication - Ensuring the right people have accurate, timely information
5. Monitoring Activities - Ongoing review to confirm controls are actually working

What Is the GAO Green Book?

Standards for Internal Control in the Federal Government, published by the U.S. Government Accountability Office. It is the framework federal agencies use to organize internal controls, and it is where the five components below get their names. Auditors reference it because it gives everyone shared language for describing what a control is and whether it is working.

- **Important:** The GAO Green Book and COSO frameworks are voluntary frameworks - 2 CFR §200.303 is the legal requirement. These frameworks help you implement what is required, but are not themselves mandated.

Components 1 and 2: Environment and Risk

Control Environment - Setting the Tone

- Leadership actively communicates the importance of compliance and ethical use of funds
- Staff understand their specific roles and responsibilities for SLFRF
- Written policies exist and are accessible - not just in one person's head
- New staff receive SLFRF-specific orientation, not just general onboarding

Risk Assessment - Know Your Vulnerabilities

- Identify where things could go wrong: procurement? documentation? reporting access?
- Have there been issues identified in audits or other reviews in the past?
- Risk increases with staff turnover, new subrecipients, and complex projects
- Reassess when circumstances change - new leadership, new awards, new vendors
- For small towns: even a simple one-page risk log is meaningful documentation

Ask Yourself:

If our finance director left tomorrow, what would break? That is your risk.

Components 3 and 4: Activities and Communication

Control Activities - The Mechanics of Compliance

- Approval thresholds documented in writing (e.g., <$5,000 supervisor; >$25,000 council approval)
- Segregation of duties: the person who approves a payment is not the same person who processes it
- Monthly reconciliation of SLFRF expenditures against the general ledger
- Invoice review checklist: funding source confirmed, deliverable verified, period of performance checked
- When full segregation is not possible due to limited staff: document the compensating control

Information and Communication - Keeping Everyone in the Loop

- Council and leadership receive regular updates on SLFRF spending and compliance status
- Staff know where to find policies, procedures, and supporting documentation
- Treasury communications are routed to active, monitored inboxes - not a former employee
- Changes to Treasury guidance are tracked and shared internally when they occur

Component 5: Monitoring Activities

What Monitoring Means in Practice

- Conduct a periodic self-assessment of your SLFRF records - at least annually
- Review expenditures for coding accuracy, completeness, and supporting documentation
- Verify that policies are being followed - not just that they exist
- Track and follow up on any issues identified, even minor ones
- Document the review: who did it, when, what was checked, and what was found

Quick Self-Check Questions

- Can two different staff members access SLFRF records independently?
- Has every invoice been tied to a contract, an approval, and a deliverable?
- Are your SAM.gov registration and Treasury portal contacts up to date?
- Have you reviewed your records since the last P&E reporting cycle?

Monitoring is not a one-time event. It is an ongoing practice that gives you early warning before auditors arrive.

Segregation of Duties: What to Do When Staff Is Limited

The Requirement

The individual who approves spending should not be the same person who processes the payment. 2 CFR §200.303 requires this separation of duties.

When Full Separation Is Not Possible

- Document the overlap explicitly: "Due to staffing constraints, [Name] performs both approval and payment functions for transactions under $X."
- Describe the compensating control: "All transactions are reviewed by [Supervisor/Council/Third Party] within [timeframe]."
- Consider periodic third-party review (CPA, fiscal agent, or neighboring municipality)
- Council-level approval for larger expenditures adds an independent check

What Auditors Accept

Auditors do not expect small towns to have large finance teams. They DO expect that you have identified the gap, documented it honestly, and put a compensating control in place. Undocumented gaps are findings. Documented gaps with mitigations are management decisions.

Why This Matters Beyond the Audit

In most small towns, one person carries the whole program in their head. When that person retires or moves on, anything undocumented leaves with them, and the next person inherits records they cannot explain. Writing down who approves what, and why a decision was made, is as much a handoff to your successor as it is an answer to an auditor.

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CASE STUDY:
The Town of Riverside Creek

Let's work through a real audit scenario together

Meet the Town of Riverside Creek

Riverside Creek is a small Maryland town (population 2,800) that received $475,000 in SLFRF funds.

How They Used Their Funds

- $310,000: Three professional services contracts for infrastructure planning, grant writing, and IT systems modernization
- $165,000: Revenue Loss - general government services

Where They Stand Today

- All funds expended and closeout confirmed by Treasury in early 2026
- Currently in the post-closeout retention period
- Received a Single Audit because total federal expenditures (including SLFRF + other grants) exceeded $1,000,000

On the surface, Riverside Creek appears to have done everything right. But the Single Audit identified two findings tied to their SLFRF-funded contracts. Let's look at what happened.

Riverside Creek: Two Audit Findings

Finding 1: Procurement and Price Reasonableness

- Two of the three professional services contracts lacked documented price reasonableness analysis. One contract was awarded through competitive solicitation, but the evaluation scoring sheets were not retained. Another contract was a sole-source award with no written justification for bypassing competition on file.

Finding 2: Overlapping Internal Control Roles

- The Finance Director served as both the approving authority and the payment processor for all three contracts. No compensating control was documented - no secondary review, no council-level oversight for these transactions, and no written acknowledgment of the overlap.

The Outcome

- Treasury issued a management decision requiring Riverside Creek to submit a Corrective Action Plan (CAP) within 90 days, documenting how they will prevent these gaps in future federal awards. No repayment was required, because the costs themselves were allowable - but the CAP is now part of their permanent federal record.

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Riverside Creek: Discussion Questions

Take 2 minutes and drop your thoughts in the chat!

Question 1

For Finding 1: What specific documents should Riverside Creek have retained to avoid the procurement finding?

Question 2

For Finding 2: What compensating control could Riverside Creek have put in place given their limited staff?

Question 3

Riverside Creek's costs were allowable - so no repayment was required. Does that mean the audit finding doesn't really matter? Why or why not?

Question 4

Does the Revenue Loss classification change any of Riverside Creek's obligations for the $165,000 portion of their award?

Riverside Creek: Debrief and Key Takeaways

Finding 1: Procurement

- Every contract file needs: solicitation, evaluation with scoring, price reasonableness analysis, award rationale, contract, SAM.gov check, invoices, and deliverable sign-off
- Sole-source awards require written justification before the contract is executed - not after

Finding 2: Internal Controls

- Overlapping roles are not automatic findings - undocumented overlapping roles are
- A one-page memo to file acknowledging the overlap and the compensating control would have changed the outcome

The Bigger Point: Findings Do Matter, Even Without Repayment

- CAPs become part of your permanent federal record
- Prior findings can raise your risk rating, and a higher risk rating means closer scrutiny: more monitoring, more documentation requests, and tighter conditions on the next federal award you receive
- Risk ratings also travel, a state agency passing federal funds through to you looks at the same history when deciding how closely to watch that award
- Auditors at your next federal grant will review prior findings
- The documentation fix is almost always simpler than the remediation of a finding

Revenue Loss note: The $165,000 Revenue Loss portion has different procurement rules - follow local policy - but the same documentation principles apply.

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PART 4:
The 48-Hour Audit Test

Could you produce your SLFRF file by tomorrow?

The 48-Hour Audit Test

The Scenario

An auditor calls today and requests your complete SLFRF documentation file by tomorrow morning. No advance notice, no grace period. Could you do it?

What They Would Ask For

- Award documentation and executed agreements
- Complete procurement files for every SLFRF-funded contract
- All invoices with approval signatures and payment records
- Performance documentation and deliverable sign-offs for each project
- Subrecipient agreements, risk assessments, and monitoring records (if applicable)
- P&E Reports and portal confirmation of submission status
- Single Audit or ACEE report and any CAPs (if applicable)
- Evidence of five-year retention policy and assigned custodian

The audit binder is not a document you create when the auditor calls. It is something you build and maintain throughout the life of the award.

Building Your SLFRF Audit Binder

Organize by Award Level and Project Level

Award-Level Folder

- Award Terms and Conditions, SAM.gov registration history, Treasury portal contacts, P&E Reports and portal confirmations, Single Audit or ACEE report, internal controls policy, retention plan

One Project Folder Per SLFRF-Funded Activity

- Eligibility memo or justification
- Complete procurement file: solicitation, evaluation, price analysis, SAM.gov check, award rationale, contract
- All amendments with approval documentation
- Invoices stamped with funding source, project ID, and cost category
- Proof of payment (canceled check, ACH confirmation)
- Deliverable acceptance: sign-off, photos, monitoring notes, or performance report

Practical Tips

- At least two staff members should have access to the complete file
- Save records in open, machine-readable formats (PDF preferred)
- Label folders consistently: Project Name — Contract # — Vendor — Date range

Poll: How Are You Feeling About Your Audit Readiness?

Respond using the poll panel now.

Be honest, this helps us know where to focus our support!

No matter where you land, MTAP is here to help. Submit questions anytime at dbm.maryland.gov/mtap.

A Solid - our files are organized and we know where everything is

B Mostly there - a few gaps but nothing we cannot close before an audit

C We have some work to do - today helped us see where

D Starting from scratch - today was an eye-opener

Coming Up Next in the MTAP Summer Compliance Series

Audit readiness and documentation go hand in hand. Session 3 picks up right where we leave off today.

Session 3:
Document, Document, Document! - August 25, 2026

- The five-year SLFRF retention requirement and what triggers the clock
- What to keep, how to organize it, and what format it should be in
- File structures, naming conventions, and the project cover sheet
- Planning for staff turnover so your records survive personnel changes

Session 4:
Procurement Systems and Practice - September 29, 2026

- Federal procurement methods and dollar thresholds under 2 CFR Part 200
- Revenue Loss procurement - what rules apply and what doesn't
- Building the complete compliant procurement file from solicitation to closeout
- Contractor vs. subrecipient: getting the classification right

Registration links will be shared via MTAP email and at dbm.maryland.gov/mtap.

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MTAP Resources for Audit Readiness

MTAP Guides Available at dbm.maryland.gov/mtap

- Internal Controls General Guidance - five-component framework for SLFRF recipients
- SLFRF Revenue Loss Compliance and Audit Readiness Guide - includes audit checklist
- SLFRF Compliance Guide for Maryland Municipalities - single audit, findings, and do's and don'ts
- Federal Documentation Retention Guide - retention requirements and file structure
- SLFRF Closeout Quick Guide and Post-Closeout Responsibilities Guide
- Suspension and Debarment Quick Guide - SAM.gov requirements for procurement

Key Regulatory References

- 2 CFR §200.303: Internal controls requirement
- 2 CFR §200.403: Allowability, allocability, reasonableness, consistency
- 2 CFR Part 200 Subpart F: Single audit requirements
- OMB Compliance Supplement (latest version): Used by auditors to evaluate SLFRF compliance

Submit questions anytime through the MTAP Question Portal at dbm.maryland.gov/mtap

Questions?

Use the Q&A panel to submit your questions now.

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Thank you!

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