Highlights of the
Single Audit Process

Produced by:
The Grants Management Committee
Chief Financial Officers Council
Preface


The purpose of this pamphlet is to provide basic information on the single audit process in straightforward and concise language. Users should refer to the Circular and other referenced documents for the language of the actual requirements.

The target audience for this pamphlet are officials of Federal awarding agencies and recipient organizations. Glossary terms are bolded the first time they are used in the narrative.

This pamphlet is a publication of the Grants Management Committee of the U.S. Chief Financial Officers (CFO) Council. An electronic version of the pamphlet, with hypertext links to authoritative and detailed source materials, is posted on the Council’s website which is accessible through the Financial Management in Government (or FINANCENET) home page: www.financenet.gov. Click on the “U.S. Chief Financial Officers Council,” and then on “Grants Management Committee” (Note: Effective December 1, 2001, the CFO Council’s Internet address will change to: http://cfoc.gov).

Suggestions for improvements to the pamphlet can be made by e-mail to the Grants Management Committee at: PL106107@os.dhhs.gov.

October 2001
INTRODUCTION

History of the Single Audit

Over $300 billion of Federal awards, representing one-sixth of the annual Federal budget, are expended by non-Federal entities (NFES). An NFE is a state (including federally-recognized Indian tribes), local government, university, or non-profit organization. The single audit is the primary mechanism used by Federal agencies to ensure accountability for Federal awards.

Federal Audit Requirements

The first organization-wide audit requirements were contained in Attachment P, Audit Requirements, to OMB Circular A-102, “Grants and Cooperative Agreements with State and Local Governments” issued in 1979. Prior to that time, each Federal awarding agency was responsible for the audit of its own awards.

Many NFES received awards from more than one Federal agency. Frequently the grant-by-grant audit processes of the Federal agencies were not coordinated, resulting in audits that overlapped or were conducted at different times. This inflated the audit costs to the Federal Government and placed an undue administrative burden on many NFES. Additionally, some NFES may not have been audited at all. The Single Audit Act of 1984 legislatively established uniform audit requirements and an organization-wide audit process for state and local governments.

Amendments of 1996

While the 1984 Act was a significant step forward in producing quality audits of Federal programs, experience demonstrated that improvement could be made. This led to the Single Audit Act Amendments of 1996 which extended the statutory audit requirement to non-profit organizations, placing states, local governments, universities, and non-profit organizations under the same audit process. It also increased the expenditure level from Federal program(s) from $25,000 to $300,000 before a non-Federal entity becomes subject to a single audit.

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INTRODUCTION

History of the Single Audit

Background

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BACKGROUND

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Purpose
To implement the requirements of the 1996 amendments, the OMB Circular A-133 was revised and renamed “Audits of States, Local Governments, and Non-Profit Organizations” (Circular). The purpose of the Circular is to set standards for consistency and uniformity for the audits required by the 1996 amendments.

The Circular provides specific policy, procedures, and criteria which the Federal agencies, auditees, and auditors are required to follow.

Organization
The Circular is organized by Subparts:

Subpart | Contents
---|---
General: | The purpose of the Circular and definitions of terms used frequently in the single audit process.
Audits: | Specific information on audit requirements and other information related to the performance of the audit.
Auditees: | Specific information on the responsibilities of auditees.
Federal Agencies & Pass-Through Entities: | Specific information on the responsibilities of Federal agencies and pass-through entities (PTEs).
Auditors: | Specific information on the responsibilities of auditors.

Circular A-133 Compliance Supplement

Purpose
The purpose of the compliance supplement is to provide guidance to the auditor regarding testing Federal program compliance requirements.

Programs and Cluster of Programs
The supplement provides audit guidance for over 150 Federal programs identified by CFDA (Catalog of Federal Domestic Assistance) number. It also provides a narrative description of each program and contains information to help the auditor understand the purpose of the program and how it operates.

A cluster of programs is a group of closely related programs that share common compliance requirements and are considered one program for audit purposes. Clusters of programs are identified in Part 5 of the Compliance Supplement.

Compliance Requirements
A “Matrix of Compliance Requirements” identifies which of 14 types of compliance requirements may apply to a Federal program.

The auditor is required to utilize the supplement to identify the compliance requirements to be tested. For each type of compliance requirement, the supplement provides one or more audit objectives and suggested audit procedures. The auditor has the option to develop alternative testing procedures as long as they meet the audit objective(s) related to the compliance requirement being tested. Accordingly, the supplement identifies what normally is tested and provides the auditor the flexibility to determine how it is tested.

The supplement also provides guidance to the auditor on the auditing of programs not included in the supplement.

Revisions to the Compliance Supplement
To accommodate new, revised, or terminated programs, OMB issues an annual revision to the supplement. Through their agency Compliance Supplement Policy Official, Federal officials can suggest improvements to the supplement. Non-Federal officials can suggest improvements to OMB through an annual notice in the Federal Register requesting comments.
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**OVERVIEW**

The diagram on page 8 complements the narrative of this section.

**Funding Relationships and Responsibilities**

An award made by a Federal awarding agency to an NFE is direct Federal funding. An NFE receiving direct funding is also called a recipient.

Federal awarding agencies are required to provide the recipient specific information regarding the award and its Federal requirements.

An NFE may provide a portion of its award to another NFE. The NFE providing the award is called a pass-through entity, or PTE. The NFE receiving this indirect Federal funding is called a subrecipient. A subrecipient can also be a PTE if it provides indirect funding to another NFE.

A PTE is required to provide the subrecipient specific information regarding the award and its Federal requirements.

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Audit Requirements

NFEs subject to audit (auditees) must: (1) arrange for a timely audit; (2) prepare appropriate financial statements and a schedule of expenditures of Federal awards; (3) ensure the audit is properly completed; (4) submit the single audit report when due; and (5) take corrective action on audit findings.

Cost of the Audit

The fair share of the cost of the single audit is an allowable cost to Federal awards provided that the audit was conducted in accordance with the requirements of the Circular and the cost is not otherwise prohibited by law or regulation.

Conducting the Audit

The audit must be conducted in accordance with the Government Auditing Standards. The auditor must: (1) audit and provide opinions on the fair presentation of the financial statements and the schedule of expenditures of Federal awards; (2) gain an understanding of internal control over Federal programs and test internal control over major programs; and (3) audit and provide an opinion on compliance with requirements for major programs.

Single Audit Report

The single audit report (report) includes:

- the financial statements (auditee’s responsibility to provide);
- a schedule of expenditures of Federal awards (auditee’s responsibility to provide);
- auditor’s opinions on the fair presentation of the financial statements and schedule of expenditures of Federal awards;
- auditor’s report on internal control and compliance pertaining to financial reporting;
- auditor’s report on internal control and opinion on compliance pertaining to major programs;
- auditor’s schedule of findings and questioned costs;
- auditee’s corrective action plans; and
- a summary schedule of prior audit findings which includes planned and completed corrective actions (auditee’s responsibility to provide).

Submission of the Single Audit Report

The auditee is responsible for submitting a report that meets the requirements of the Circular.

If the auditee is a subrecipient, it must also forward a copy of a report containing audit findings to affected PTEs. If the report contains no findings, the subrecipient is only required to provide the affected PTEs with a notification that the audit was completed.

Public Record

Most audit reports are a matter of public record.

SF-SAC Form and Federal Audit Clearinghouse

The SF-SAC Form provides information on the results of the audit which is entered into a database maintained by the Federal Audit Clearinghouse (FAC).

While both the auditee and the auditor complete parts of the SF-SAC Form, the auditee is responsible for the overall accuracy of the information on the form. The auditee forwards the SF-SAC Form and the appropriate number of reports to the FAC.

Corrective Action Plan

The auditee is responsible for preparing a corrective action plan, taking corrective actions on audit findings, and reporting the status of corrective actions in subsequent reports.

Questioned Costs

An audit finding may include questioned program costs. If any of the questioned costs are disallowed by the management decision, the auditee may have to refund the disallowed amount.

Management Decision

Within 6 months of its receipt of the report, the Federal awarding agency or PTE is required to issue a management decision on each audit finding. The management decision, which may be called various names, is a written evaluation of the audit finding(s) that specifies the necessity for corrective action by the auditee.

If the auditee disputes a management decision, it has rights of appeal.
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OVERVIEW OF THE SINGLE AUDIT PROCESS

Federal Agencies

Non-Federal Entities Which May or May Not Need a Single Audit

Federal Awards; Requirements, Technical Assistance, and Monitoring

Recipient

Subrecipient

Obtain Audit if Expenditures $300,000 or more in Federal Awards

Prepare for Audit

Select an Auditor

Prepare Financial Statements, Schedule of Expenditures of Federal Awards, and Summary Schedule of Prior Audit Findings

Start the Audit

The Single Audit

Auditors

Conduct Entity Wide Financial Statement Audit

Select Federal Programs to be Audited; Test Internal Control and Compliance Requirements Using the A-133 Compliance Supplement

Auditors and Auditees

Prepare Specific Items of the Reporting Package (the Single Audit Report) and SF-SAC Form

Correction of Audit Findings

Available on Internet

Federal Audit Clearinghouse

SF-SAC Data Base

Available on Internet

Recipient Audit Findings

Recipient

Sub

Management Decision (MD)

Subrecipient Single Audit Report or Notification

SF-SAC and Single Audit Report

Archive Report

All Recipient and Subrecipient SF-SACs and Single Audit Reports

SF-SAC and Single Audit Report

Recipient

Sub

Pass-Through Entity

Management Decision (MD)
Cognizant Agency for Audit

Recipients which annually expend awards in excess of an amount specified by the Circular (currently $25 million) have a Federal cognizant agency for audit. The cognizant agency for audit provides technical audit advice; considers requests for extensions to the submission due date for the audit report; coordinates the management decision for audit findings that affect more than one Federal agency; coordinates quality control reviews; and conducts other activities required by the Circular.

A recipient’s cognizant agency for audit for the 5-year period FY 2001 through FY 2005 is the Federal awarding agency which provided the most direct funding for FY 2000. The cognizant agency for audit will be redetermined for the 5-year period starting with FY 2006. The cognizant agency for audit may be different than the cognizant agency for indirect cost.

Oversight Agency

An NFE which does not have a cognizant agency has a Federal oversight agency. The oversight agency is the Federal awarding agency that provides the most direct funding or, if no direct funding, the most indirect funding. The oversight agency provides technical audit advice and may assume the duties of a cognizant agency.

Quality Control

To ensure that single audits are performed in accordance with applicable auditing standards, the auditor’s working papers are subject to a quality control review by the cognizant agency for audit, oversight agency, or Federal awarding agency.

Agency Contact

Questions about the single audit process should be directed to the agency contact(s) listed in Appendix III of the compliance supplement.

PRIMARY RESPONSIBILITIES

Non-Federal Entity

Managing the Award

NFES are responsible for managing their awards. This includes maintaining or establishing a system of internal control which provides reasonable assurance that it is complying with pertinent laws, regulations, governmentwide requirements, and the specific conditions of its award(s). Additionally, the accounting system must be able to identify all awards received and the amounts expended from each.

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<td>A-102 Common Rule</td>
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<td>Colleges &amp; Universities</td>
<td>A-21</td>
<td>A-110</td>
<td>A-133</td>
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<td>Hospitals &amp; Care Facilities</td>
<td>45CFR 74</td>
<td>A-110</td>
<td>A-133</td>
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Monitoring Subrecipients

PTEs are responsible for ensuring their subrecipient(s) meet the requirements of the Circular and specific requirements of the award.

PTEs are responsible for preparing management decision(s) on subrecipient audit findings.
Cognizant Agency for Audit  
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<th>Audit Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>State &amp; Local Gov't</td>
<td>A-87</td>
<td>A-102 Common Rule</td>
<td>A-133</td>
</tr>
<tr>
<td>Colleges &amp; Universities</td>
<td>A-21</td>
<td>A-110</td>
<td>A-133</td>
</tr>
<tr>
<td>Hospitals &amp; Care Facilities</td>
<td>45CFR 74</td>
<td>A-110</td>
<td>A-133</td>
</tr>
<tr>
<td>Other Non-Profit</td>
<td>A-122</td>
<td>A-110</td>
<td>A-133</td>
</tr>
</tbody>
</table>


Monitoring Subrecipients

PTEs are responsible for ensuring their subrecipient(s) meet the requirements of the Circular and specific requirements of the award.

PTEs are responsible for preparing management decision(s) on subrecipient audit findings.
<table>
<thead>
<tr>
<th><strong>Preparation of Financial Statements and Schedule</strong></th>
<th><strong>Auditee</strong></th>
<th><strong>Auditor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditees are responsible for preparing their financial statements and a schedule of expenditures of Federal awards. The statements and schedule must be prepared for the same time period.</td>
<td><strong>Requirements for the Auditor</strong></td>
<td>The auditor is required to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• perform the audit in accordance with the <em>Government Auditing Standards</em>;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• apply risk assessment procedures to determine which programs will be audited; a program that is audited is called a “major program;”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• determine whether the financial statements and schedule of expenditures of Federal awards are presented fairly;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• gain an understanding of internal control over Federal programs and test internal control over major programs;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• determine whether the auditee has complied with the compliance requirements which may have a direct and material effect on each of its major programs; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• follow up on prior audit findings.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Selection of an Auditor</strong></th>
<th><strong>Auditee</strong></th>
<th><strong>Auditor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Selecting an auditor to conduct the audit required by the Circular can be the auditee's most important activity in the audit process. For some governmental auditees, state or local law places the authority and responsibility to conduct or arrange for the audit with an independent government auditor. Other governmental auditees may have the option to engage an independent government auditor or a public accounting firm. Non-governmental auditees normally must engage a public accounting firm to conduct the audit.</td>
<td><strong>Audit Finding</strong></td>
<td>The auditor is required to present the following as an audit finding in the schedule of findings and questioned costs:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• a deficiency in internal control related to major programs;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• material noncompliance with the laws, regulations, or contract or grant provisions related to major programs;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• for major programs, questioned costs which exceed, or are likely to exceed, $10,000 for each type of compliance requirement;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• for non-major programs, questioned costs which exceed $10,000;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• detected fraud which affects a program; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• misrepresentation of the status of a prior audit finding.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The auditor is required to prepare specific components of the audit report and sections of the SF-SAC.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Current Findings - Corrective Action Plan</strong></th>
<th><strong>Auditee</strong></th>
<th><strong>Auditor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The auditee is responsible for (a) preparing a corrective action plan for current-year audit findings and (b) taking action to correct the reported findings.</td>
<td><strong>Audit Finding</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Prior Findings - Corrective Action Status</strong></th>
<th><strong>Auditee</strong></th>
<th><strong>Auditor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The auditee is responsible for reporting the status of its corrective action for each prior-year finding in the summary schedule of prior audit findings until the finding has been corrected or the finding is no longer valid or warrants corrective action.</td>
<td><strong>Audit Finding</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Submission to the Clearinghouse</strong></th>
<th><strong>Auditee</strong></th>
<th><strong>Auditor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The auditee is responsible for submitting the SF-SAC Form and the audit report to the Federal Audit Clearinghouse within 30 days of receipt of the auditor’s reports, but no later than 9 months after the end of the auditee’s fiscal year. To take advantage of the on-line editing feature, the auditee is encouraged to use the Internet to electronically submit the SF-SAC Form to the FAC. Until the FAC receives an acceptable audit report and SF-SAC Form, the auditee does not receive credit for meeting the audit requirement.</td>
<td><strong>Audit Finding</strong></td>
<td></td>
</tr>
</tbody>
</table>

12 13
The auditor is required to:

- perform the audit in accordance with the Government Auditing Standards;
- apply risk assessment procedures to determine which programs will be audited; a program that is audited is called a “major program;”
- determine whether the financial statements and schedule of expenditures of Federal awards are presented fairly;
- gain an understanding of internal control over Federal programs and test internal control over major programs;
- determine whether the auditee has complied with the compliance requirements which may have a direct and material effect on each of its major programs; and
- follow up on prior audit findings.

The auditor is required to present the following as an audit finding in the schedule of findings and questioned costs:

- a deficiency in internal control related to major programs;
- material noncompliance with the laws, regulations, or contract or grant provisions related to major programs;
- for major programs, questioned costs which exceed, or are likely to exceed, $10,000 for each type of compliance requirement;
- for non-major programs, questioned costs which exceed $10,000;
- detected fraud which affects a program; and
- misrepresentation of the status of a prior audit finding.

The auditor is required to prepare specific components of the audit report and sections of the SF-SAC.
### Federal Audit Clearinghouse

**Bureau of the Census**

OMB has designated the Bureau of the Census to operate the Federal Audit Clearinghouse (FAC). The FAC serves as the central collection point, repository, and distribution center for single audit reports.

The primary functions of the FAC are to:

<table>
<thead>
<tr>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive and Archive the SF-SAC Form</td>
<td>• receive the SF-SAC Form and the audit report from the auditee;</td>
</tr>
<tr>
<td>and Single Audit Report</td>
<td>• archive copies of the SF-SAC Form and audit report;</td>
</tr>
<tr>
<td>Forward Audit Report</td>
<td>• forward a copy of the audit report to each Federal awarding agency which has provided direct funding and which has a related audit finding;</td>
</tr>
<tr>
<td>Maintain Data Base</td>
<td>• maintain an electronic database of the SF-SAC Forms which is accessible via the Internet; and</td>
</tr>
<tr>
<td>Inquiries</td>
<td>• answer inquiries concerning submission requirements of the Circular at 1-888-222-9907 or <a href="mailto:govs.fac@census.gov">govs.fac@census.gov</a>.</td>
</tr>
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Bureau of the Census

OMB has designated the Bureau of the Census to operate the Federal Audit Clearinghouse (FAC). The FAC serves as the central collection point, repository, and distribution center for single audit reports.

The primary functions of the FAC are to:

- Receive and Archive the SF-SAC Form and Single Audit Report
  - receive the SF-SAC Form and the audit report from the auditee;
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- Forward Audit Report
  - forward a copy of the audit report to each Federal awarding agency which has provided direct funding and which has a related audit finding;

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- Inquiries
  - answer inquiries concerning submission requirements of the Circular at 1-888-222-9907 or govs.fac@census.gov.

Supplemental Information Available on the Internet

**Federal Audit Clearinghouse**

- www.ignet.gov
  - IGnet
    - The web site maintained by the Inspectors General includes a single audit library with hypertext links to several of the source materials referred to in this pamphlet

- www.financenet.gov
  - Chief Financial Officers Council
    - Important public financial management and accounting information

- www.gao.gov
  - The United States General Accounting Office:
    - Government Auditing Standards
    - Standards For Internal Control in the Federal Government (GAO/AIMD-00-21.3.1; Nov. 1999)
    - How to Avoid a Substandard Audit: Suggestions for Procuring an Audit (National Intergovernmental Audit Forum; May 1988)

- www.omb.gov
  - The Office of Management and Budget:
    - Circular A-133, Federal Cost Principles and Administrative Requirements Circulars
    - Compliance Supplement is available free on the OMB web site. Printed and CD ROM copies may be purchased from the Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, PA, 15250-7954. The telephone number is 202-512-1800. The document must be identified as the Circular A-133 Compliance Supplement with the current year GPO stock number.

- www.cfda.gov
  - Catalog of Federal Domestic Assistance
    - Searchable Database of Federal Award Programs

- http://harvester.census.gov/sac
  - Federal Audit Clearinghouse
    - Searchable Database of Single Audit SF-SAC Data

- www.auditforum.org
  - Mid-America Intergovernmental Audit Forum
    - Guide On Selecting An External Auditor
# GLOSSARY

**Auditee**
A non-Federal entity that expends Federal awards which must be audited pursuant to the provisions of the Circular

**Audit Finding**
A deficiency that the auditor is required to report in the schedule of findings and questioned costs

**Auditor**
A public accountant or a Federal, state, or local government, audit organization which meets the *Government Auditing Standards*

**Award**
Federal financial assistance (e.g., grants), and Federal cost reimbursement contracts, including awards received from pass-through entities

**Circular**
OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

**Catalog of Federal Domestic Assistance (CFDA)**
A governmentwide compendium of all Federal programs, grants and other activities which provide assistance to the American public; each Federal program is identified by a unique 2-digit, 3-decimal number

**Compliance Requirement**
A requirement which is applicable to a program and may be included in the compliance supplement requirements for the auditor to test

**Compliance Supplement Policy Official**
The Federal awarding agency policy official responsible for ensuring that program objectives, procedures and compliance requirements are provided to OMB for inclusion in the Supplement

**Federal Audit Clearinghouse (FAC)**
An agent for OMB to maintain a governmentwide database of single audit results and reports

**Financial Statements**
Financial statements that reflect the auditee’s financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited

**Government Auditing Standards**
Standards for auditing government organizations and programs issued by the United States General Accounting Office and commonly referred to as the “Yellow Book”

**Internal Control Over Federal Programs**
A process, effected by an entity’s management and other personnel, designed to provide reasonable assurance regarding proper accounting and reporting of transactions, compliance with laws and regulations, and safeguarding assets

**Major Program**
A program that is audited

**Management Decision**
An evaluation made by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan, and the issuance of a written decision as to what corrective action is needed

**Non-Federal Entity (NFE)**
A state (including federally-recognized Indian tribes), local government, university, or non-profit organization

**Pass-Through Entity (PTE)**
A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program

**Program-Specific Audit**
An audit of one Federal program based on provisions in the Circular

**Recipient**
A non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program

**SF-SAC Form**
A data collection form submitted to the Federal Audit Clearinghouse which provides information about the auditor, the auditee and its Federal programs, and the results of the audit

**Single Audit**
An audit of a non-Federal entity’s financial statements and Federal awards which meets the requirements of the Circular

**Single Audit Process**
The audit process prescribed in the Circular

**Subrecipient**
A non-Federal entity that expends Federal awards from a pass-through entity to carry out a Federal program; a subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency
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