Office of the State Auditor Steps of the Federal Compliance Audit and Finding Process

Step I : Internal Control Meeting	 Control Environment, Risk Assessment, Information & Communication, and Monitoring are discussed Key internal controls are identified by auditee If control deficiencies are identified, refer to Step 4 	
Step 2: Walkthrough of Controls	 Auditee demonstrates key controls If control deficiencies are identified, refer to Step 4 	
Step 3: Audit Testing	 Information is requested (timely communication is key) Audit procedures are performed If exceptions are not identified, skip to Step 9 	
Step 4: Communication of Potential Exceptions	 Auditee is notified of potential exceptions Auditee agrees with exceptions or provides additional information If exceptions are cleared through provision of additional information, skip to Step If exceptions are not cleared, move to Step 5 	99
Step 5: Audit Communication to Management	 Audit Communication is issued, outlining <i>potential</i> finding (or Management Letter Comment (MLC)) Informal response to factual accuracy of Audit Communication is requested within specified timeframe (no response is required if it's a proposed MLC, move to Step 	n
Step 6: Response to Audit Communication	 If auditee agrees with Audit Communication, move to Step 7 If auditee disagrees, auditee must provide addt'l info. to support disagreement If exceptions are cleared through provision of additional information, skip to Step If exceptions are not cleared, move to Step 7 	99
Step 7: Formal Communication of Finding to Commissioner(s)	 Formal finding (or MLC) is issued by the State Auditor Formal response from auditee is requested within specified timeframe for finding (no response is required for MLCs) 	S
Step 8: Finding Response	 Formal response is submitted by auditee to the Office of the State Controller's Internal Audit Division If auditee agrees, auditee develops corrective action plan If auditee disagrees, auditee documents reasons for disagreement in response & auditor drafts Auditor's Concluding Remarks (ACR) in finding 	
Step 9: Conclusion of Audit	•Single Audit Report is issued	

Office of the State Auditor Steps of the Federal Compliance Audit and Finding Process

Useful Definitions

Internal Control

Processes implemented to provide reasonable assurance that noncompliance with statutes, regulations, and the terms and conditions of Federal awards is prevented, or detected and corrected, on a timely basis in the normal course of operations.

Material

Quantitative and qualitative factors that have a significant impact on compliance with a compliance requirement.

Management Letter Comment

A deficiency in internal control that does not rise to the level of a Significant Deficiency and does not require inclusion in the Single Audit Report but is important enough to merit the attention of those charged with governance and management.

Finding Types

Significant Deficiency

A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance and the Federal oversight agency.

Material Weakness

A deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Material Noncompliance

Noncompliance has been identified that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the compliance area.