

AUDIT READINESS FOR  
STATE AND LOCAL GOVERNMENTS

# Best Practices for Finance Leaders

As public accountability, federal funding requirements, and stakeholder expectations intensify, audit readiness has emerged as a strategic imperative for state and local governments. For chief financial officers (CFOs), controllers, and directors of finance, being “audit ready” is not simply about preparing for an annual financial statement or Single Audit—it is about building a sustainable framework for financial accuracy, internal control, transparency, and risk management.

This article outlines best practices in audit readiness, emphasizing actionable strategies that government finance leaders can use to improve efficiency, reduce audit findings, and reinforce public trust.

## Establish a Culture of Audit Preparedness Year-Round

In government finance offices, one of the most common pitfalls is treating audit readiness as a once-a-year event. Instead, embed audit preparedness into the financial management cycle by:

- ▶ Incorporating monthly or quarterly reconciliations of key accounts.
- ▶ Conducting periodic internal control assessments.
- ▶ Reviewing documentation standards throughout the year.

**This proactive approach reduces last-minute efforts, reduces errors, and signals to auditors a commitment to sound financial management.**

## Develop a Detailed Audit Readiness Calendar

Create a comprehensive timeline that aligns with your fiscal year close and audit milestones. This should include:

- ▶ Deadlines for closing entries and account reconciliations.
- ▶ Timelines for federal fund reporting, e.g., Schedule of Expenditures of Federal Awards (SEFA) preparation for Single Audits.
- ▶ Internal deadlines for draft financial statements and audit schedules.

**By assigning clear roles and responsibilities to staff it prevents duplication of effort, allows for proper oversight and promotes accountability across departments and functional areas.**

## Make Sure Documentation and Supporting Schedules are Audit-Ready

Auditors rely on your documentation to validate account balances and test compliance. Make sure these are in place:

- ▶ All journal entries are properly approved and supported.
- ▶ Capital asset additions and retirements are updated.
- ▶ Grant-related expenditures are approved and tracked with proper backup and aligned to program requirements.

**Use Prepared by Client (PBC) checklists for completeness of audit evidence by adopting or tailoring their auditor's provided formats to assist with this process.**

## Prioritize Internal Control Monitoring and Remediation

Comptrollers and CFOs should make sure that control deficiencies identified in prior audits are addressed before the next cycle. This includes:

- ▶ Implementing corrective action plans from previous audits.
- ▶ Documenting policies and procedures across key processes (procurement, payroll, grant management, etc.).
- ▶ Performing self-assessments or engaging internal audit functions to test controls.

**Consistent internal control evaluation also supports compliance with the COSO framework and Government Accountability Office (GAO) Green Book standards.**

## Coordinate Early and Often With Your External Auditors

Maintain open communication with your audit team throughout the year. Schedule a pre-audit planning meeting to:

- ▶ Discuss changes in accounting standards (e.g., GASB 96 on subscription-based IT arrangements).
- ▶ Highlight organizational or transactional changes (e.g., major capital projects, bond issuances).
- ▶ Review anticipated challenges or complex estimates (e.g., pension/OPEB liabilities).

**Early auditor engagement fosters smoother fieldwork and fewer surprises during final audit stages.**

## Leverage Technology to Streamline Audit Preparation

State and local governments increasingly benefit from financial systems that support audit readiness, including:

- ▶ Document management systems to store and retrieve supporting documentation efficiently.
- ▶ Workflow automation tools to monitor compliance and internal approvals.
- ▶ Dashboards and analytics for real-time visibility into financial performance and audit risks.

**Investing in cloud-based ERP solutions or grant management systems can significantly reduce audit lag time and improve accuracy in reporting.**



### Prepare for Single Audit Requirements with Granular Detail

If your entity expends \$750,000 (for years beginning after 10/01/24, the threshold is \$1,000,000) or more in federal awards, a Single Audit is required under the Uniform Guidance. Best practices include:

- ▶ Keeping a running SEFA throughout the year.
- ▶ Maintaining a detailed grant file for each award with budgets, award letters, expenditure documentation, and compliance certifications.
- ▶ Identifying subrecipients and monitoring subaward performance as required under 2 CFR 200.331.

### Engage in Post-Audit Learning and Continuous Improvement

After the audit concludes, hold a debrief with your team and external auditors. Use this session to:

- ▶ Identify process inefficiencies or gaps in documentation.
- ▶ Discuss auditor feedback constructively.
- ▶ Update procedures and training materials based on audit outcomes.

**Treat the audit not as an evaluation, but as a feedback loop to enhance future performance and reduce organizational risk. For further guidance, please see the complementary audit readiness and implementation checklists**



# Audit Readiness Checklist for State and Local Governments

## Year-Round Planning and Internal Controls

- Develop and maintain an annual audit readiness calendar with milestones.
- Reconcile major accounts (cash, receivables, payables, grants, etc.) monthly or quarterly.
- Conduct internal control assessments based on the GAO Green Book of COSO.
- Review and update written financial policies and procedures.
- Address prior year's audit findings with documented corrective actions.
- Prepare for new GASB pronouncements applicable to your entity.

## ACFR Preparation and Financial Reporting

- Finalize all journal entries and perform year-end closing procedures.
- Prepare draft financial statements, MD&A, RSI, SI, and statistical sections.
- Reconcile capital assets, calculate depreciation, and document capital additions/disposals.
- Verify and reconcile long-term debt, leases, and pension/OPEB schedules against journal entries.
- Cross-check financial schedules against supporting documentation.
- Review of the draft ACFR against applicable disclosure checklist.

## Single Audit Compliance (Uniform Guidance)

- Maintain a running Schedule of Expenditures of Federal Awards (SEFA) throughout the year.
- Identify federal awards by Assistance Listing Number and major programs and reconcile to grant awards and Sam.gov.
- Obtain and review the current year's OMB Compliance Supplement (the Supplement).
- Map compliance requirements (Part 2 and Part 4 of the Supplement) to internal controls.
- Test and document controls over key compliance areas (e.g., eligibility, reporting, procurement).
- Reconcile federal grant activity in the SEFA to the general ledger.
- Monitor subrecipients and document risk assessments and oversight activities.
- Retain documentation for drawdowns, cost allowability, match, and program income.

## Coordination with External Auditors

- Schedule an audit planning meeting to review scope, timing, and significant changes.
- Submit a completed PBC (Prepared by Client) list and assign internal responsibilities.
- Communicate major changes (latest programs, staff turnover, bond issuances) to auditors.
- Provide internal control documentation and access to financial systems as needed.
- Participate in audit entrance and exit conferences.
- Provide prompt, complete responses to audit inquiries.





## Post-Audit and Continuous Improvement

Conduct an internal debrief on audit results and improvement opportunities.

Update policies and controls based on auditor recommendations and findings.

Track completion of corrective actions related to any audit findings.

Provide audit summary and financial highlights to executive leadership or governing boards.

Begin planning and calendar setup for the next fiscal year's audit cycle.

### KEY RESOURCES

- ▶ OMB Uniform Guidance (2 CFR Part 200): <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>
- ▶ OMB Compliance Supplement: <https://www.whitehouse.gov/omb/management/office-federal-financial-management/>
- ▶ GAO Green Book: <https://www.gao.gov/greenbook>
- ▶ GFOA ACFR Program: <https://www.gfoa.org/acfr-program>

This checklist should be reviewed and updated at least annually and shared with all departments and cross functional teams involved in financial reporting, grant management, and audit response.



# Checklist for Implementation of Revised Uniform Guidance (2 CFR Part 200)

With the Office of Management and Budget (OMB) 2024 revisions to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (commonly referred to as the Uniform Guidance), state and local governments must proactively address the impact of these changes in their federal grant compliance and Single Audit preparations.

This addendum outlines key readiness actions to support a successful first-year implementation and reduce risk during audit testing.

## Understand Key Changes in the Revised Uniform Guidance

Review the full text of the 2024 Final Rule and identify changes that affect your organization (e.g., micro-purchase thresholds, program income use, indirect cost eligibility).

Identify which grants are subject to the revised guidance (generally those with new funding actions after October 1, 2024).

Attend webinars or training courses to build internal awareness of the changes (e.g., AICPA, AGA, NGMA, NASACT and BDO).

Communicate significant changes to program staff, grants managers, and procurement teams.

## Update Policies, Procedures, and Internal Controls

Revise internal control documentation to align with updated requirements in 2 CFR 200.303.

Update written procedures for procurement (2 CFR 200.317–.327) and subrecipient monitoring (2 CFR 200.332).

Modify grant agreements and contract templates to reflect new Uniform Guidance clauses.

Address program income and match contributions in accordance with new rules.

## Subrecipient Monitoring and Risk Management

Perform updated subrecipient risk assessments using new risk criteria under 2 CFR 200.332.

Amend subrecipient agreements to include updated flow-down clauses.

Update subrecipient monitoring tools and checklists to reflect revised guidance.

Train grant and program managers on revised subrecipient oversight responsibilities.

## Prepare for First-Year Single Audit Under Revised Uniform Guidance

Maintain separate documentation for grants under pre-2024 and post-2024 Uniform Guidance.

Consult with your external auditor on how the revised guidance will impact audit scope and testing.

Monitor for release of the 2025 OMB Compliance Supplement and review its matrix of compliance requirements for updated audit procedures.

Perform a gap analysis using Part 6 of the Compliance Supplement to confirm internal controls are aligned with new compliance requirements.

## Strengthen Governance and Continuous Improvement

Conduct an implementation summit or internal readiness meeting with all relevant departments.

Document transitional decisions for grants that straddle both versions of the guidance.

Review and update your corrective action plan and risk management framework to incorporate new compliance risks.

Plan for auditor questions around changes to procurement thresholds, program income, indirect costs, and administrative flexibility.

This addendum should be integrated into your audit readiness plan and referenced during planning meetings, internal reviews, and audit entrance conferences to demonstrate your organization's preparedness and commitment to compliance under the revised guidance.

## Key Resources

- ▶ [Revised Uniform Guidance \(OMB Final Rule, 2024\)](#)
- ▶ [Uniform Guidance Crosswalk and FAQs](#)
- ▶ [2025 OMB Compliance Supplement \(anticipated\)](#)





## CONTACT

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## HOW BDO CAN HELP

In the current landscape of heightened scrutiny, public sector leaders must view audit readiness as a continuous responsibility that reflects the government's fiscal stewardship and accountability. By implementing these best practices, CFOs and controllers can foster a strong control environment, build auditor confidence, and serve their constituents more effectively.

BDO State and Local Government practice helps governments and communities thrive. Contact us to learn how we can support you through a comprehensive, proactive and tailored approach.

For more information on our service offerings, visit [bdo.com/governments](https://bdo.com/governments).

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