Financial Statement and Federal Single Audit Update

4th Annual School Finance and Operations Conference

South Padre Island

July 23, 2026

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Agenda

Financial Statements

- GASB No. 103
- GASB No. 104
- GASB No. 105

Federal Compliance

- Latest updates from the Government Audit Quality Center (GAQC)
- Procurement issues
- 2 CFR Proposed Changes (Effective 10/1/2026)
- Other risks

FINANCIAL STATEMENT CHANGES FY 2026

GASB 103 – Management's Discussion and Analysis

Explicit requirements to explain:

- Why balances and results changed
- What caused the changes
- Whether the changes are expected to continue

MD&A should:

- Avoid merely repeating numbers
- Provide meaningful analysis tied to operations, policy decisions, or external factors

GASB NO. 103 and Budget Information

- Remove the budget-to-actual analysis from the MD&A
- General Fund Budget-to-Actual Schedule must be RSI and not a basic financial statement
- Variance Explanations must be part of RSI
  - Final Budget to Actual
  - Adopted to Amended Budget
    - Note that TEA's FIRST Indicator #10 is slightly different: "Did the school district average less than a 10 percent variance (90%-110%) when comparing budgeted revenues to actual revenues for the last 3 fiscal years?" TEA confirmed that the amended budget used for this indicator is as of the Fall Submission (Snapshot).
  - The GASB requires an explanation for "significant" variances but does NOT define significant.

GASB NO. 103 Proprietary Fund Financial Statements

- Only Affects the government-wide and governmental funds when there are infrequent and unusual items
- Proprietary Funds – Enterprise Funds or Internal Service Funds
  - Non-capital subsidies
  - Transfers in/out are part of Nonoperating revenue/expenses
- Infrequent and Unusual Items
  - New section above change in net position
  - Separate the events revenue and expenses into this new category

GASB 103 – Unusual or Infrequent Items

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Before

- Extraordinary Items - unusual in nature and infrequent in occurrence
- Special Items - unusual or infrequent and within the control of management

Now

- Unusual Items – unusual in nature
- Infrequent Items – infrequent in occurrence

GASB 103 – Unusual or Infrequent Items

- Unusual or infrequent items are transactions and other events that are either unusual in nature or infrequent in occurrence.
- When applicable, unusual or infrequent items will be presented just before the net change in fund balance/net position.
- Governments should disclose in notes the program, function, or identifiable activity to which an unusual or infrequent item is related, if applicable, and whether that item is within the control of management.

GASB 103 - Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

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- A subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

Operating revenues (detailed)
    Total operating revenues
Operating expenses (detailed)
    Total operating expenses
        Operating income (loss)
Noncapital subsidies (detailed)
    Total noncapital subsidies
        Operating income (loss) and noncapital subsidies
Other nonoperating revenues and expenses (detailed)
    Total other nonoperating revenues and expenses
        Income (loss) before unusual or infrequent items
Unusual or infrequent items (detailed)
    Increase (decrease) in fund net position
Fund net position—beginning of period
Fund net position—end of period

Noncapital subsidies are a type of nonoperating revenue and expense

GASB 103 - Definitions of Operating Revenues and Expenses and of Nonoperating Revenues and Expenses

Nonoperating Revenues and Expenses

1) Subsidies received and provided
2) Contributions to permanent and term endowments
3) Revenues and expenses related to financing
4) Resources from the disposal of capital assets and inventory
5) Investment income and expenses

Operating Revenues and Expenses

- Revenues and expenses other than nonoperating revenues and expenses

GASB 103 - Definitions of Operating Revenues and Expenses and of Nonoperating Revenues and Expenses

Subsidies are defined as:

1) Resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise,

2) Resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and

3) All other transfers.

	Enterprise Funds				
	Public Utility	Transit Authority	Golf Courses	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	$ 41,003	$ 18,636	$ 2,561	$ 62,200	$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	18,669	2,665	62,620	42,601
OPERATING EXPENSES					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(6,709)	(4,768)	(10,968)	(1,939)
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	(1,980)	2,090	110	220	1,181
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)	(758)
OTHER NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,496	75	103	1,674	446
Gain from the sale of capital assets	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in—restricted for capital assets	1,032	15,360	2,384	18,776	1,215
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067	1,664
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319	906
Fund net position—beginning of period	331,657	177,997	29,423	539,077	12,387
Fund net position—end of period	$ 333,742	$ 188,365	$ 26,289	$ 548,396	$ 13,293

GASB 103 – Statistical Section

The statistical section of the annual comprehensive financial report must present revenues by major source, distinguishing between:

- operating,
- noncapital subsidy, and
- other nonoperating revenues and expenses.

Considerations for the MD&A and Stat Section

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- GASB 100 does not require restatement of prior years for the implementation of a GASB standard
- Options
  - Do not restate the prior years presented and explain the requirements of GASB 100
  - Restate the prior years and explain the stark differences if not restated

Exhibit 3 Presentation in RSI and SI	
Accounting Change	RSI and SI (including MD&A)
Reporting Entity	Financial information included in the RSI and SI should conform to the entity reported in the comparative financial statements Because the financial statements are not restated for changes in the reporting entity, RSI or SI information should not be restated
Accounting Principle	The financial information contained in the RSI and SI should be restated for all periods for which financial statements are presented RSI or SI information should not be restated for periods prior to those of the comparative financial statements
	so no changes should be made to prior-year RSI and SI financial information.
Error Correction	Financial information included in the RSI and SI should be restated for all periods for which financial statements are presented If the error affects periods earlier than those appearing in the comparative financial statements, the RSI and SI financial information should be restated for all periods affected by the error (if practicable)

GASB Issues Statements 100 and 101 - The CPA Journal

GASB 104 - Capital Assets Held for Sale

A capital asset is a capital asset held for sale if

(a) the government has decided to pursue the sale of the asset and

(b) it is probable (likely to occur) that the sale will be finalized within one year of the financial statement date.

Capital assets held for sale should be disclosed in notes to financial statements, with separate disclosure of:

- Historical cost and accumulated depreciation (or amortization), by major class of asset, and
- The carrying amount of debt for which capital assets held for sale are pledged as collateral, for each major class of asset.

GASB 104 - Capital Assets Held for Sale

Example Note Disclosure

Included in capital assets are buildings that are capital assets held for sale. Those buildings are reported in governmental activities. They have a total historical cost of $8.0 million and an accumulated depreciation of $5.0 million, and they are pledged as collateral for debt with a balance of $1.5 million.

GASB Pronouncements

Statement No. 105, *Subsequent Events*

Improves the financial reporting requirements for subsequent events by:

- defining subsequent events,
- describing the date the financial statements are available to be issued,
- requiring the date through which subsequent events must be evaluated to be disclosed,
- clarifies the subsequent events that constitute recognized and nonrecognized events, and
- establishes specific note disclosure requirements for nonrecognized events.

Effective for fiscal years beginning after June 15, 2026

Earlier application is encouraged

Pre/Post-GASB No. 105 Subsequent Events

	GASB No. 56	GASB 105 (New Standard)
Definition of Subsequent Events	Based on AICPA auditing standards (AU-C 560) incorporated into GASB 56; definitions caused confusion and inconsistent application. (FY 2009)	"Transactions or events occurring after the date of the financial statements but before the date the financial statements are *available to be issued*." (FY 2026)
Time Frame for Evaluation	Less clearly defined; relied on auditing language and was not consistently applied across governments.	Explicitly defines the "date available to be issued" as the point when (1) statements are complete under GAAP and (2) all approvals for issuance are obtained.
Recognized Events	Concept existed but lacked clarity, causing diversity in practice.	Clearly defined as events that provide evidence about conditions existing at the statement date → require adjustment of financial statements. (Examples usually include litigation settled based on pre-year-end conditions, etc.).

Pre/Post-GASB No. 105 Subsequent Events

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	GASB 56 Guidance	GASB 105 (New Standard)
Nonrecognized Events	Often inconsistently identified; disclosure practices varied.	Events arising after year-end that relate to new conditions → require *note disclosure only*, not adjustment. Must disclose nature and financial impact if estimable.
Disclosure Requirements	Disclosure requirements not uniform; diversity in practice noted.	Must disclose **the date through which subsequent events were evaluated**, even if none occurred.
Objective of the Standard	Based on auditing standards and not tailored for governmental financial reporting; resulted in inconsistent application.	Improve consistency, comparability, and clarity in how governments evaluate and disclose subsequent events.
Alignment with Other Standards	Did not fully align with modern updates to AICPA and FASB guidance.	Aligns evaluation period and definitions more closely with FASB ASC 855 and AICPA AU-C 560

Recognized Event

- For example, if a government entity learns **after year-end but before issuing the financial statements** that a major customer has declared bankruptcy, and the customer's financial **difficulties existed at the financial statement date**, this would be a recognized event. The entity should **adjust its estimate of uncollectible accounts receivable** to reflect this information. Similarly, if new information becomes available about the realization of assets such as receivables or inventories, or the settlement of estimated liabilities, and these relate to conditions existing at the financial statement date, the financial statements should be adjusted accordingly. These events typically represent the culmination of conditions that existed over a relatively long period of time

Additional Examples of Recognized Events

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- Settlement of litigation for an amount different from the liability recorded, when the **events that gave rise to the litigation occurred before the financial statement date**. The settlement provides additional evidence about conditions existing at the financial statement date and requires adjustment to the financial statements.
- Subsequent events affecting the realization of assets, such as inventories or receivables, when those events represent the culmination of conditions that existed over a relatively long period of time. For example, if new information about collectability of receivables becomes available after year-end but relates to conditions existing at the financial statement date, the financial statements should be adjusted.
- Settlement of estimated liabilities, such as warranty claims or tax assessments, when the settlement provides evidence about conditions that existed at the financial statement date.

Nonrecognized Event

- An example of a nonrecognized event under GASB 105 is the issuance of bonds after the date of the financial statements but before the date the financial statements are available to be issued. Other common examples include the creation of a new component unit or the loss of a government facility as a result of a tornado, fire, or flood occurring after the financial statement date. These events did not exist at the date of the financial statements, so they do not result in adjustments to the amounts reported, but disclosure in the notes may be required if the event is significant to users' understanding of the financial statements.
- Change in superintendent
- TEA Conservator

GASB No. 105 Subsequent Events

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June 30, 2027

As a result of redefining the subsequent events time frame, this Statement requires governments to evaluate events **occurring between a government's financial statement date and the date the financial statements are available to be issued.** In response to stakeholder feedback, the Board also decided that the **date through which subsequent events have been evaluated should be disclosed in notes** to financial statements. The Board acknowledged that a financial report may contain multiple dates that may, in some cases, be different (**for example, the date of the audit report and the date of the transmittal letter)** **and, therefore, concluded that explicit disclosure of the date through which subsequent events have been evaluated provides** essential information to users about the context of information about subsequent events

Board Packet Date

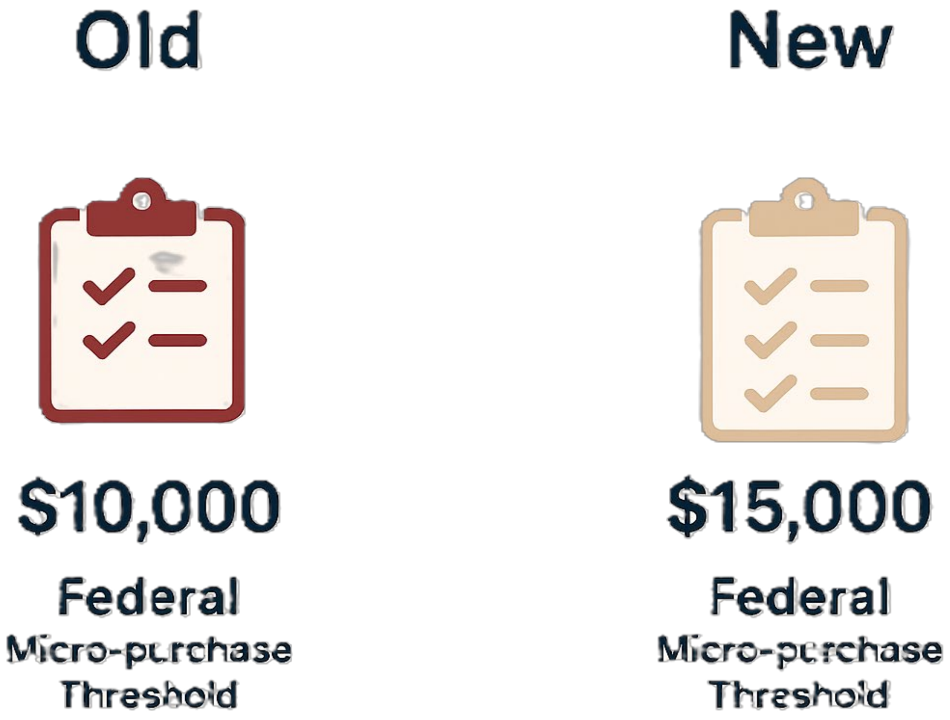
FEDERAL COMPLIANCE

OMB Compliance Supplement

- Status of Office of Management and Budget Compliance Supplement (CS)
  - Still delayed
  - Will monitor to determine effects of November 2026 deadline
  - Auditor may NOT issue their single audits for years ended June 30, 2026 and after.
  - You must wait for the compliance supplement issuance

HOT TOPIC – Procurement

Procurement Thresholds



Procurement Changes

Old	New
$50,000	**$100,000**
State Competitive Procurement	**State Competitive Procurement**

Procurement Thresholds

Procurement Thresholds

- Micro-purchase threshold
  - $15,000 ($10,000)
  - Self-certification $15,001 - $49,999 (notification)
  - Approval required from $50,000 - $99,999 (approval)
- Self-certification submitted to one regulator may not cover you for another regulator.
- Some regulators do not allow you to increase the micro-purchase threshold above $49,999.

Procurement Threshold Changes

- Simplified Acquisition Threshold is now $350,000
- Remember that for some entities like TEA, you must aggregate like-type item in one fiscal year. If the total is $350,000 or more, you must follow the requirements under 2 CFR 200.324
  - Independent estimate
  - Cost or price analysis

Applicability of Procurement and Suspension and Debarment

- External Auditors are required to follow the OMB Compliance Supplement (CS) in determining which of the 12 compliance requirements are applicable to a federal grant.
- Regardless of whether a procurement is subject to audit by the OMB CS, an LEA must comply with the federal requirements.
- See TEA's Federal Fiscal Monitoring Protocol

Monitoring Review Indicators Matrix

Cross-Cutting Indicators

TYPE OF REVIEW Indicators Reviewed	6100 – Payroll Compensation	6200 – Contracted Services	6300 – Supplies & Materials	6400 – Other Operating Costs	6600 – Capital Outlay	Testing Sample Size
G1 – Procurement Conflict of Interest		Y			Y	0
G2 – Procurement Method of Aggregation		Y	Y	Y	Y	Maximum 4
G3A – Micro-Purchase		Determined by transactions selected for Indicator G2			Determined by transactions selected for Indicator G2	Selected in G2
G3B – Simplified Acquisitions						Selected in G2
G3C – Contracts <$350K						Selected in G2
G3D – Sealed Bids						Selected in G2
G3E – Proposals						Selected in G2
G3F – Noncompetitive						Selected in G2
G3G – Purchasing Agreements (including Cooperative Purchasing)						Selected in G2

3

Version 1.2, Updated May 15, 2026

G4 – Procurement Records		Y			Y	0
G5 – Contract Provisions		Y			Y	0

TEA's Procurement/Suspension & Debarment Requirements

Monitoring Questions for Determining Compliance	Supporting Documentation Examples

• **Does the subrecipient maintain required written standards of conduct covering conflicts of interest and governing the actions of employees engaged in the selection, award, and administration of contracts?**
• Has the subrecipient had any violation of the written standards of conduct?
  ○ If violations have been identified, what disciplinary actions have been taken?
  ○ How was it documented?
• Does the subrecipient set a nominal value for receiving unsolicited items?
  ○ If yes, what if the subrecipient's local process for identifying any violations of the policy and how was the violation reviewed and processed?
	General:
	• Written standards of conduct covering conflicts and disciplinary actions
	• Written nominal value for unsolicited items (required if the subrecipients set such value)
	Per procurement selected:
	• Formal procurement documentation, including additional procurement or purchasing processes, forms, or approval documentation
	• Conflict of interest statements included in contracts or in internal processes to initiate or approve procurements
	• If applicable, list of any violations of the written standards
	• If applicable, list of disciplinary actions taken
	• Other locally determined documentation to address the indicators.

TEA's Procurement/Suspension & Debarment Requirements

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Monitoring Questions for Determining Compliance	Supporting Documentation Examples
• **Does the subrecipient follow the locally determined process to track categories of expenditures to be able to determine the appropriate method of procurement while ensuring the categories are not created to circumvent laws?** • Does the subrecipient define aggregating funds within its local procedures?	• Definition of aggregating funds in local procedures • Documentation of the process being followed to track aggregating funds to determine the appropriate method of procurement

Expenditure Testing:

A maximum of four (4) transactions will be selected by the TEA monitor for review under this indicator. The monitor will selec at least two different types of procurement methods, when possible, with no more than three different methods being selected. These transactions will then also determine the G3x indicators to be reviewed.

Monitoring Notes:

- If the subrecipient provides sufficient documentation to identify how they aggregate funds, then the monitor will select no more than four procurement transactions and review the remaining applicable procurement indicators (G3x, G4, G5) for those procurement transactions. *For reference, the proper type of procurement to be implemented based on the most restrictive rules between state and federal is defined on the next page. Remember, local policy can be more restrictive and impact the determination of the proper procurement method to be implemented.*
- If the subrecipient does not provide sufficient documentation to identify how they aggregate funds, then
  - A finding for G2 is issued, and further attributes related to the remaining procurement indicators (G3x, G4, and G5) are *not* reviewed.
  - All costs expended under 6200, 6300, 6400, or 6600 (whichever class/object code is monitored) up to the date of the engagement letter will be questioned in the final report. (This indicator may or may not require returning funds and will be determined during the Noncompliance Resolution Process.)
- The monitor may review any documentation provided by the subrecipient to determine compliance with this indicator.

LEA Self Assessment and Protocol - Acct Data School Imp

TEA's Procurement/Suspension & Debarment Requirements

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Amount	State Requirements	EDGAR Requirements
$1-$15,000 Aggregate	TEC, §44.031 – no formal requirements, suggests policy	**§200.320(a)(1) micro-purchase – reasonable cost, and, as practicable, equally distributed among vendors**
$15,001-$99,999 Aggregate	TEC, §44.031 – no formal requirements, suggests policy	**§200.320(a)(2) simplified acquisition – price quotes from an adequate number of vendors**
$100,000-$350,000 Aggregate	**TEC, §44.031, requirements (choose best option for school system)** **1. Competitive bidding** **2. Competitive sealed proposals** **3. RFP** **4. Interlocal contract** **5. RFQ** **6. Reverse auction** **7. Formation of political subdivision corporation**	§200.320(a)(2) simplified acquisition – price quotes from an adequate number of vendors
$350,001+	TEC, §44.031, requirements (choose best option for school system) 1. Competitive bidding 2. Competitive sealed proposals 3. RFP 4. Interlocal contract 5. RFQ 6. Reverse auction 7. Formation of political subdivision corporation	**§200.320(b)(1) sealed bids and proposals; (b)(2) IFB, RFP, or RFQ only** **§200.324 LEA is required to conduct cost or price analysis on all procurements.**
Non-Competitive/Sole Source	TEC, §44.031 – Sole source allowed if existence of a patent, copyright, secret process, or monopoly.	**§200.320(c) Noncompetitive Proposal:** **1. Micro-purchase** **2. Available from a single source** **3. Public exigency or emergency** **4. Prior Approval by authorized agency (TEA)** **5. No competition – only one bid/proposal received after attempting competition**
Denotes the most restrictive rules that must be followed.		

LEA Self Assessment and Protocol - Acct Data School Imp

TEA's Procurement/Suspension & Debarment Requirements

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Monitoring Questions for Determining Compliance	Supporting Documentation Examples

• **Does the aggregate amount of like type items of the micro-purchase expenditure fall within the approved micro-purchase threshold allowed (either $15,000 or the approved self-certified threshold)?**
• If the threshold is between $15,001 and $50,000, is the subrecipient eligible to utilize micro-purchase?
• If the threshold is between $50,001 and $99,999, has the subrecipient's threshold been approved by TEA in EDGAR Connect System (if approved, eligibility has been reviewed in approval process)?
• Have similar micro-purchases been equitably distributed among qualified vendors?
• Does the subrecipient have documentation to show the purchase price is reasonable?
	• Evidence of tracking like-type items in the aggregate to ensure the individual expenditure is eligible to be a micro-purchase
	• Evidence of the subrecipient's micro-purchase threshold
	• If the threshold is between $15,001 and $50,000, evidence of eligibility for the subrecipient to utilize micro-purchase which must be one of the following:
	  ○ Designated as low-risk auditee in most recent single-audit (not the TEA risk assessment); or
	  ○ Conduct an annual internal organizational risk assessment to identify, mitigate, and manage financial risks (must address all three components of the assessment)
	• Other locally determined documentation to address the indicators

Expenditure Testing:

Of the maximum of four procurement transactions selected, if any of them were procured as micro-purchases, the monitor will determine compliance based on the selected transaction by reviewing the Monitoring Questions for Determining Compliance listed above. In addition, the monitor will assess the aggregation of like-type items to verify the procurement method was allowable.

TEA's Procurement/Suspension & Debarment Requirements

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Monitoring Questions for Determining Compliance	Supporting Documentation Examples

• **Does the subrecipient provide evidence that a cost or price analysis was conducted for the selected procurement transaction?**
• Did the subrecipient identify two or more qualified sources who could provide the contracted purchase or service?
• Did the IFB:
  ○ Identify and provide sufficient response time before opening bids?
  ○ Define the items or services being procured?
  ○ Define the public time and place bids would be opened?
  ○ Award a firm-fixed-price contract based on price?
• Did the subrecipient document and provide justification for all rejected bids?
	• Locally defined documentation showing the subrecipient estimated the cost or price of the contract
	• List of two or more potential sources who could provide the purchase or service
	• Copy of the posted IFB
	• Executed contract matching the awarded price and the submission price
	• Copy of rejection notices with justification included
	• Other locally determined documentation to address the indicators

Expenditure Testing:

Of the maximum of four procurement transactions selected, if any of them were procured as sealed bids the monitor will determine compliance based on the selected transaction by reviewing the Monitoring Questions for Determining Compliance listed above. In addition, the monitor will assess the aggregation of like-type items to verify the procurement method was allowable.

CNS Findings (78)

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- A large number of entities failed to verify and document that vendors receiving payments of $25,000 or more from federal program funds were not suspended or debarred. In many cases entities acknowledged the verification was not performed or not retained, although subsequent review confirmed no vendors were actually excluded. Several entities had this as a repeat finding.
- Multiple entities failed to follow required competitive procurement methods for purchases above applicable thresholds, including not obtaining required price or rate quotations for small purchases above the micro-purchase threshold, not conducting sealed bids or competitive proposals for purchases above the simplified acquisition threshold, and making purchases without following the entity's own written procurement policy.

CNS Findings (78)

- One entity purchased food items from a vendor where approximately 34 percent of items tested were not on the approved bid document or lacked a corresponding price, and the entity could not document market pricing at the time of invoice. Questioned costs totaled $467,325. Another entity's food service vendor contract renewal was not approved by the board as required
- One entity's food service vendor contracts did not include required contract provisions including Buy American certification statements. Another entity's contract lacked a required termination-for-cause clause with 60-day notification as required by 7 CFR 210.16(d)

SPED Cluster Procurement Findings (162)

- A large number of recipients across multiple states did not verify whether vendors were suspended or debarred on SAM.gov before entering into covered transactions, or verified the status but did not retain documentation of the check. In most cases, testing confirmed that the vendors were not actually suspended or debarred, but the absence of documentation represents noncompliance with 2 CFR 180.300.
- Multiple recipients failed to follow required competitive procurement methods when purchasing goods or services with IDEA funds. Conditions included procurements above the simplified acquisition threshold without sealed bids or proposals, small purchases above the micro-purchase threshold without obtaining an adequate number of price quotes, and sole-source justifications that did not satisfy the criteria for noncompetitive procurement. In some cases, the same vendors had been used for years without bidding when federal funds were introduced.

TEA v. TDA

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	TEA	TDA
Micro-purchase Threshold Max	$99,999	$49,999
Requirements for Micro-purchase increase between $15K and $50K	Notification	Approval
Requirements for Micro-purchase increase between $50K and $100K	Approval	N/A – Not allowed beyond $50K
Simplified Acquisition Threshold	$350,000	$100,000
Use of Sole Source Vendor Requirements	Notification	Approval
Aggregate or by Transaction	Aggregate	Transaction

Simplified Acquisition Threshold

- Cost/Price Analysis
- Independent Estimate

Formal procurement methods
Purchasing Cooperative Purchases

Items Requested During a TDA Procurement Audit

SFA Procurement Table Vendor Paid List — Summary of Total Expenditures by Vendor (nonprofit food service account only)

Micro-Purchases

Vendor transactions selected for review

- Purchase orders issued
- Receipts / Invoices

Small Purchase Procurements

Vendor transactions selected for review

- Solicitation documents (specifications, evaluation criteria)
- Bid quotes / responses
- Evaluation of responses for award
- Purchase orders
- Receipts / Invoices

Formal Procurements

Documents for vendor contracts selected

- Solicitation documents (specifications, evaluations, contracts, etc.)
- Bidder / Offeror responses
- Evaluation of responses for contract award
- Executed contracts
- Contract renewal / addendum / amendments, if applicable (since original contract was awarded)
- Cost / price analysis documentation
- Non-competitive proposal authorization, if applicable
- Invoices (3 vendor invoices identifying goods / services procured and amount paid)

Governing basis: under 2 CFR §§200.318–200.320, SFAs must follow the more restrictive limit, so TDA's $100,000 threshold applies in place of the federal $350,000.

TDA Findings Program Year 2026

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Findings by Finding Area

Finding Area	Count
Micro Purchases - All	143
Formal Contracts - All	143
100 - General Procurement Procedures	139
Small Purchases - All	88
Formal Contracts	78
FSMC - All	75
Micro Purchases	53
Small Purchases	41
TOTAL	**760**

TDA Findings Program Year 2026

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Top 5 Most Common Findings (with Detail)

Rank	Finding Area	Question	Count
1	100 - General Procurement Procedures	Q2: Is the SFA/LEA's documented Procurement Procedures/plan compliant with Federal, State and local procurement standards? [2 CFR 200.318(a)]	104
2	Micro Purchases - All	Q3: Based on a review of invoices/receipts, is the SFA compliant with distributing purchases equitably among all qualified sources? [2 CFR 200.320(a)]	41
3	Small Purchases - All	Q1: Prior to making a purchase, is the SFA compliant with obtaining price/rate quotes from an adequate # of qualified sources (2 or more)? [2 CFR Part 200.319(c)(1), .320(b)]	41
4	Micro Purchases	Q3: Based on a review of invoices/receipts, is the SFA compliant with distributing purchases equitably among all qualified sources? [2 CFR 200.320(a)]	39
5	100 - General Procurement Procedures	Q1: Is the SFA written code of conduct compliant?	32

Indirect Costs and Subcontracts/Subrecipients

- 2 CFR 200.414 – de minimus rate is up to 15%.
- For those entities that must submit a negotiated indirect cost rate, you cannot apply the de minimus rate; check with your grantor
- The Modified Total Direct Cost (MTDC) threshold has been updated to allow indirect cost reco very for each subaward up to $50,000. This change was implemented on October 1,2024, as part of the revisions to the Uniform Administrative Requirements for Federal Financial Assista nce (2 CFR 200). For applicants and recipients to apply this increased threshold, they must h ave a current Negotiated Indirect Cost Rate Agreement (NICRA) that cites the updated thresh old amount. [EFFECTIVE July 1, 2025] Implementation of Revised Federal Grant Regulations

Indirect Costs and Subcontracts/Subrecipients

- Remove distorting items:
  - Food (Child Nutrition Programs)
  - Capital Outlay
  - Debt Service\Payments
  - Contracts/subawards beyond the first $50,000
  - Bad debt
  - Indirect costs already allocated

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New Dept of Justice Rule

The DOJ's regulation amending 28 CFR 35.200, which requires public entities to ensure the **web content and mobile applications** they provide or make available (whether directly or through contractual, licensing, or other arrangements) are **readily accessible to and usable by individuals with disabilities** and comply with Level A and Level AA success criteria and conformance requirements specified in Web Content Accessibility Guidelines (WCAG) 2.1. The ~~**regulation is effective April 24, 2026**~~, for public entities (excluding special district governments) with a total population of 50,000 or more; and ~~**April 26, 2027, for public entities** with~~ a total **population of less than 50,000 or special district governments.**

Update – Due Dates Extended as of 4/20/2026

In GAQC Alert #499, we discussed the U.S. Department of Justice (DOJ) regulation establishing web and mobile accessibility requirements for public entities (Title 28 of U.S. Code of Federal Regulations (CFR) Part 35, Subpart H, Web and Mobile Accessibility). On Monday, April 20, 2026, DOJ issued an interim final rule extending the compliance dates by 1 year for that regulation. https://www.federalregister.gov/documents/2026/04/20/2026-07663/extension-of-compliance-dates-for-nondiscrimination-on-the-basis-of-disability-accessibility-of-web

The compliance date for State and local government entities with a total population of 50,000 or more **is extended to April 26, 2027**. The compliance date for public entities with a total population of less than 50,000**, or any special district government, is extended to April 26, 2028.**

What is a Special Purpose Government?

Per the AICPA Audit and Accounting Guide *State and Local Governments*

12.02 *Special-purpose governments* are legally separate entities that perform only one activity or only a few activities, **such as cemetery districts, school districts, colleges and universities, utilities, hospitals and other health care organizations, and public employee retirement systems (PERSs).** Special-purpose governments are legally separate entities and may be primary governments, stand-alone governments, or component units as defined in GASB Statement No. 14, *The Financial Reporting Entity* , as amended, and discussed in chapter 3, "The Financial Reporting Entity," of this guide.

DOJ Regulation

- Web content is defined by § 35.104 to mean the information and sensory experience to be communicated to the user by means of a user agent (*e.g.*, a web browser), including code or markup that defines the content's structure, presentation, and interactions. This includes text, images, sounds, videos, controls, animations, and conventional electronic documents. Subpart H also sets forth technical requirements for ensuring the accessibility of mobile apps that a public entity provides or makes available, directly or through contractual, licensing, or other arrangements.

Exceptions

Exceptions from compliance with the technical standard required under § 35.200: (1) archived web content; (2) preexisting conventional electronic documents, unless such documents are currently used to apply for, gain access to, or participate in the public entity's services, programs, or activities; (3) content posted by a third party, unless the third party is posting due to contractual, licensing, or other arrangements with the public entity; (4) conventional electronic documents that are about a specific individual, their property, or their account and that are password-protected or otherwise secured; and (5) preexisting social media posts.

GAQC Alert #499

Question: What is the auditor's responsibility, if any, for audit reports that are posted on a government's website?

Answer: Management is responsible for compliance with applicable laws and regulations. Accordingly, management is responsible for ensuring financial statements and Single Audit reports posted on its website on or after the effective date comply with WCAG 2.1.

Management may request the auditor to provide their reports in a specific format (for example, Word or PDF) and with certain style settings (such as black and white formatting, 12-point font, and no images) to facilitate incorporation into the financial statements or Single Audit reporting package. The extent to which the auditor assists management in complying with these requirements is a matter of professional judgment.

If the auditor provides such assistance, they should consider whether the services constitute a nonattest service and must evaluate in accordance with the AICPA *Code of Professional Conduct* and *Government Auditing Standards*.

GAQC Alert #502

Health and Human Services (HHS) Regulation (Alert Released 7/21/2026)

HHS's regulation at 45 CFR 84 subpart I, *Web, Mobile and Kiosk Accessibility*, requires a recipient to ensure that the **web content and mobile apps that the recipient provides** or **makes available, directly or through contractual, licensing, or other arrangements, comply with Level A and Level AA** success criteria and conformance requirements specified **in WCAG 2.1**, unless the recipient can demonstrate that compliance with this section would result in a fundamental alteration in the nature of a program or activity or in undue financial and administrative burdens. The regulation is effective May 11, 2027, for a recipient with fifteen or more employees, and May 10, 2028, for a recipient with fewer than fifteen employees. Section 45 CFR 84.82 states the **subpart is applicable to all programs or activities that receive Federal financial assistance from HHS.**

October 1, 2026
Proposed Changes

October 1, 2026 Proposed Changes

2 CFR 200.303(g) States must conduct pre-payment verification checks prior to disbursing Federal funds.

- Must review available data sources with relevant information to verify the eligibility of payees and prevent improper payments.
  - US Department of Treasury Do Not Pay system.

2 CFR 200.305 requires Federal agencies to verify recipient eligibility before making any disbursement.

This section requires payment requests from recipients AND subrecipients other than States to include justifications describing the purpose of the payment and the specific award-related work it supports. Agencies must collect this information once appropriate systems are in place. (TEA should have a system in place)

October 1, 2026 Proposed Changes

- Contract Clause Modifications (2 CFR 200.326)
  - New termination authorities.
  - New suspension authorities.
  - New Federal policy compliance requirements.
  - Additional oversight and accountability expectations.

October 1, 2026 Proposed Changes

Contract Clause Modifications (2 CFR 200.326) - New Termination Clauses (See 2 CFR 200.340)

Federal agencies would have broader authority to terminate **discretionary awards** when:

- Program goals are no longer being achieved.
- Agency priorities change.
- The award no longer advances the national interest.
- The award is otherwise determined not to be in the government's interest.

As a result, contracts and subawards flowing from those awards will need to account for increased termination risk.

October 1, 2026 Proposed Changes

Contract Clause Modifications (2 CFR 200.326) - New Termination Clauses (See 2 CFR 200.340)

Federal agencies would have broader authority to terminate discretionary awards when:

- Greater emphasis on termination-for-convenience type language.
- More attention to closeout and settlement procedures.
- Increased contractor awareness that funding may stop before project completion.

October 1, 2026 Proposed Changes

Contract Clause Modifications (2 CFR 200.326) - New Termination Clauses (See 2 CFR 200.340)

Required Documentation

- Contract termination clause language.
- Subaward termination provisions.
- Contractor acknowledgement of termination terms.
- Documentation of work completed before termination.
- Documentation of outstanding obligations.
- Settlement calculations and closeout costs.
- Correspondence regarding termination notices.

October 1, 2026 Proposed Changes

- New Suspension Clauses
  - Temporarily halt work
  - Direct recipients to stop activities
  - Evaluate compliance or program alignment before allowing work to continue

Recipients may need to ensure procurement contracts include:

- Stop-work procedures
- Suspension notification requirements
- Contractor responsibilities during suspension periods

Please consult with your general counsel

Why Subrecipient Monitoring Is a Hot Topic

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Legal Responsibilities of PTEs

PTEs must ensure federal funds are used properly, following statutes, regulations, and award terms without delegation.

Increased Federal Funding Volume

Pandemic relief and infrastructure programs have boosted subawards, heightening monitoring complexity for PTEs.

Why Subrecipient Monitoring Is a Hot Topic

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Common Audit Findings

Failures include missing risk assessments, lack of monitoring, ignoring audits, and no management decisions on findings.

Enforcement and Fraud Risks

Weak monitoring is seen as an internal control failure leading to fraud, with DOJ and OIG investigations relying on oversight gaps.

Criminal Case Study: District of Columbia Public Schools Bribery and Procurement Fraud Case (2025)

Case Overview and Crimes - DCPS contract specialist convicted for conspiracy, bribery, and wire fraud related to procurement misconduct.

Fraud Scheme Details - Official steered purchases to favored vendors and approved payments for undelivered or inflated goods.

Oversight and Control Failures Lack of independent oversight and insufficient internal controls allowed the scheme to persist for years.

Lessons for Compliance Case highlights risks of overreliance on individuals and importance of secondary review in federal compliance.

COVID-19 Relief Funding and Oversight Failures

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Examples of Fraudulent Activities - Subrecipients submitted false reimbursement requests, charged unallowable costs, and diverted funds for unrelated purposes.

Oversight Weaknesses - Pass-through entities often failed to monitor subrecipients properly, missing documentation reviews and red flags.

Consequences of Monitoring Gaps - Inadequate monitoring allowed improper payments to persist through multiple reporting periods increasing risk.

Importance of Robust Monitoring - Strong subrecipient monitoring under federal regulations is essential to prevent fraud and misuse of funds.

EPA OIG Fraud Alert and Disclosure Obligations

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Expanded Disclosure Requirements

Amendments to 2 CFR 200.113 now require subrecipients to disclose credible evidence of fraud or wrongdoing promptly.

Subrecipient Fraud Cases

EPA OIG identified instances where subrecipients engaged in fraud, but prime recipients delayed or failed to disclose wrongdoing.

Compliance and Monitoring Importance

Effective monitoring and timely disclosure are critical to mitigate enforcement risk and meet Single Audit expectations.

GAO Review of Single Audit Findings

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Scope of GAO Review - GAO analyzed 3,680 Single Audit findings from fiscal years 2022 to 2024 focusing on subrecipient monitoring noncompliance. (GAO-25-107315; March 2025)

Common Deficiencies Found - Deficiencies included lack of risk assessments, insufficient monitoring, unreviewed audits, and missing management decisions.

Impact of Noncompliance - Noncompliance impairs transparency and raises risks of fraud and improper payments across multiple federal agencies.

Persistent Compliance Challenge - Subrecipient monitoring failures are widespread and remain one of the most significant compliance issues under Uniform Guidance.

HHS Grant Payment System Fraud Case

Fraudulent Grant Diversion - The audit revealed $7.8 million in grant funds diverted due to weak payment system controls and oversight failures.

Oversight and Monitoring Failures - Inadequate verification, poor communication, and delayed response enabled fraud across multiple awards and entities.

Internal Control Importance - The case highlights how weak subrecipient oversight can undermine the entire grant management system effectiveness.

Thank You

Questions & Discussion

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