

Testing Internal Control and Compliance and Single Audit Update

NCACPA Mountain Cluster
October 2022



Agenda

Topics

- Introduction
- Understanding and Testing Internal Control
- Tests of Compliance Requirements Applicable to Major Programs
- Single Audit Update

Unit One

Introduction



Introduction to Compliance Auditing

- Federal Government- \$800 billion in grants annually, nearly 20% of the federal budget and approximately 1,800 grant programs
- NFP, SLG, Indian tribal governments, and commercial entities
- **Direct and indirect funding from pass through entity**
- CARES Act and other supplemental appropriations in response to the pandemic
- Revised Yellow Book and UG- 6/30/20 YE and UG 11/12/20
- Single audits threshold \$750,000
- Compliance Supplement issued for 2022



Single Audits in Time of COVID-19

- The changing deadlines and extensions for Single Audits
- Challenges with receiving funding with little documentation and sometimes even before an award is made
- The unusual SEFA recognition for the Provider Relief Funding
- COVID programs being identified as higher risk
- Recipient's choice of period of performance
- Expenditures reported on the SEFA in different ways- Provider Relief Funds
- Participants should monitor changes at the AICPA's GAQC

5

Kaplan Inc. Communications

2022



Overview of 17 Steps

- Step 1 – Assemble the professional literature
- Step 2 – Determine the type of audit necessary, if any
- Step 3 – Comply with GAGAS General Requirements
- Step 4 – Perform Planning – Additional GAGAS Requirements
- Step 5 – Planning – Uniform Guidance
- Step 6 – Determine Major programs

6

Kaplan Inc. Communications

2022



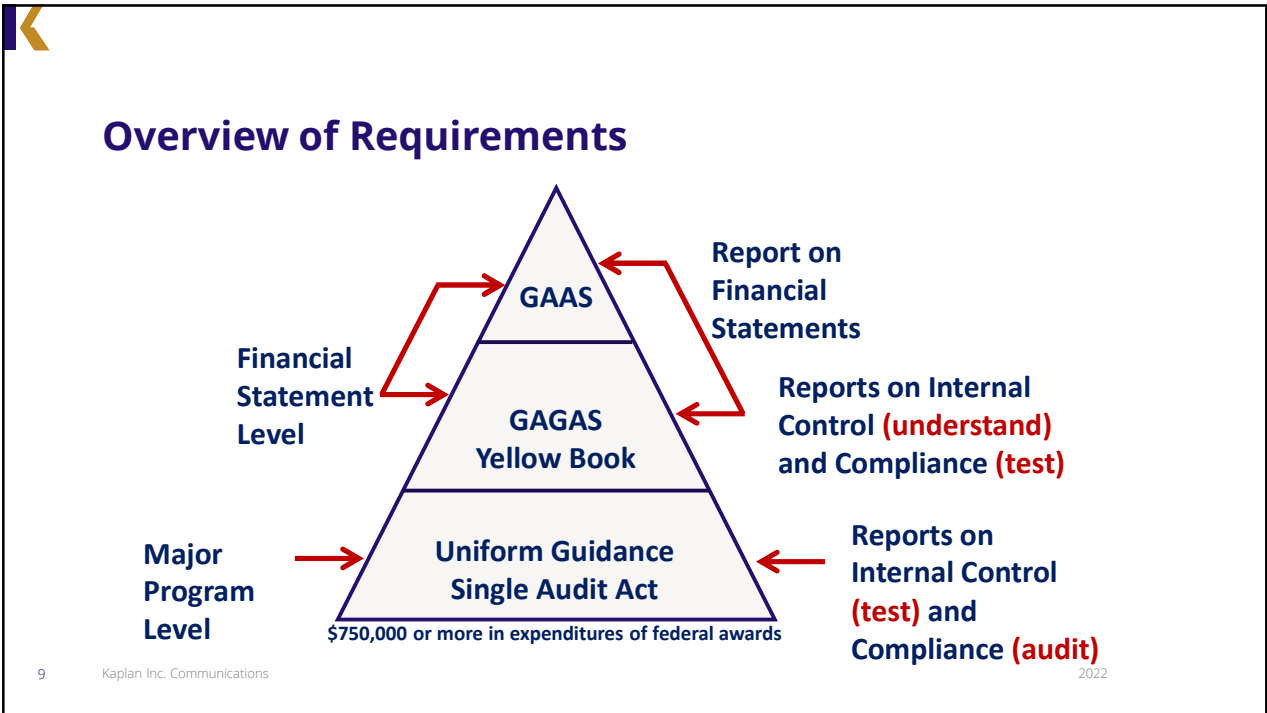
Overview of 17 Steps

- Step 7 – Determine Audit Materiality at the Major Program Level
- Step 8 – Determine Compliance Requirements
- Step 9 – Obtain an understanding of internal control and document the understanding
- Step 10 – Determine preliminary assessment of risk
- Step 11 – Choose Internal Control Sample and test internal control



Overview of 17 Steps

- Step 12 – Choose Compliance Sample
- Step 13 – Perform Compliance Testing
- Step 14 – Summarize the results of audit procedures
- Step 15 – Writing findings and recommendations
- Step 16 – Concluding the Audit
- Step 17 – Reporting



- ## Step 8: Determine Compliance Requirements
- AICPA Focus Point
 - The AICPA has observed in its reviews that auditors are not properly documenting why they consider certain compliance requirements not to be direct and material.
 - Auditor should document **why** the requirement is not considered direct and material. Peer reviewers will be specifically looking for this documentation.
- 10 Kaplan Inc. Communications 2022

Unit Two

Internal Control



Step 11: Understanding & Testing Internal Controls

Internal Control

“A process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.”

- Reasonable assurance
- Testing vs. understanding controls



Step 11: Understanding & Testing Internal Controls

AICPA Focus Points Related to Audit Deficiencies

- Peer reviewers have been instructed to look specifically at the understanding and testing of entity level internal controls.
- Documentation should include who the auditor spoke with about the control and other evidence such as review of documents.
- Control activities were identified and tested but it was hard to distinguish between them and the compliance tests in dual purpose testing.
- Linkage- AICPA noted that controls tested by the auditor frequently did not link back to controls identified in earlier steps
- Control weaknesses identified during the internal control assessment were not identified as significant deficiencies or material weaknesses.



Step 11: Understanding & Testing Internal Controls

AICPA Focus Points Related to Audit Deficiencies

- Audit documentation did not contain sufficient evidence of the auditor's understanding and testing of the five elements of internal control.
- Audit documentation did not contain evidence of internal control testing for several compliance requirements. Although testing is not required if the requirements are not direct and material, this was not noted in the audit documentation.
- Control weaknesses identified during the internal control assessment and testing were not evaluated to determine whether they were significant deficiencies or material weaknesses



Step 11: Understanding & Testing Internal Controls

Five Elements of Internal Control and the COSO Integrated Framework

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring activities



Step 11: Understanding & Testing Internal Controls

- Controls related to compliance (entity controls and control activities)
- Evaluating design and testing operating effectiveness
- Difference between internal control over financial reporting and internal control over compliance at the activity level
- Information technology
- Service organizations



Step 11: Understanding & Testing Internal Controls

- Auditors may hope to gain efficiencies by dual purpose testing.
- For internal control testing, it is possible to combine transactions for programs as a population.
- For compliance testing, each major program must have a discrete sample size.
- Issue 1: Combining population of expenditures for allowable costs across programs may result in a sample size that is not sufficient for compliance testing.
- Issue 2: Programs like allowable costs may have more than one system: payroll, disbursements, indirect costs.



Step 11: Understanding & Testing Internal Controls

• EXAMPLE

An auditor was considering how to test expenditures in a major program for allowable costs. After examining the expenditures in the award, she determined that:

- 60% of the expenditures were related to personnel costs.
- 25% of the expenditures were related to items that were invoiceable.
- 15% were expenditures charged under the entity's indirect cost proposal.

Each of the expenditure types were required to meet different requirements so the auditor had to understand and test 3 systems, one for each type of expenditure.



Step 11: Understanding & Testing Internal Controls

- Effectiveness of controls – Tests of controls would generally include procedures such as inquiry of the client personnel and inspection of documents and reports, as well as observation of the application of certain controls. The effectiveness of controls is demonstrated throughout the period.
- Control design – If the organization’s internal control is complex, the auditor should use flowcharts or questionnaires to help determine tests that focus on the design of the control.
- Consistent application – The auditor should test the operating effectiveness of the control throughout the period to determine if it was consistently applied.
- Efficiency – Some of the procedures performed to obtain an understanding of internal control may also provide audit evidence about the effectiveness of the design or the operation of the control.
- Lack of evidentiary support – If the documentation of the design or operation of a control does not exist relative to assignment of authority and responsibility or segregation of duties, the auditor may use reperformance or observation to test the control.



Step 11: Understanding & Testing Internal Controls

- Transactions are properly recorded and accounted for to:
 - Permit the preparation of reliable financial statements and federal reports.
 - Maintain accountability over assets.
 - Demonstrate compliance with laws, regulations, and other compliance requirements.
- Transactions are executed in compliance with:
 - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program.
 - Any other laws and regulations that are identified in the compliance supplements.
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.



ICFR vs. Internal Control Over Compliance–Example

An auditor identified disbursements as a significant system (covers both expenses and accounts payable) of internal control over financial reporting and after reviewing the process flow prepared by the client, identified the following controls as key controls in the process.

Internal Controls – Financial Reporting

- A. Disbursements made through a computerized check writing system based upon approval of appropriate supporting documents (existence, occurrence, completeness)
- B. Match disbursement records against accounts payable open invoice files (existence, occurrence)
- C. Bank statements reconciled to cash accounts and any outstanding checks researched by administrative assistant. Difference between bank statement reconciliations, general ledger, and subsidiary ledgers are researched in a timely manner. Bank reconciliations are reviewed by the controller (existence, occurrence, accuracy, classification, cutoff)
- D. Supporting documentation stamped paid to prevent resubmission for payment (existence, occurrence, completeness)



ICFR vs. Internal Control Over Compliance–Example (cont)

Internal Controls – Financial Reporting

- E. Detailed reporting comparing actual vs. budgeted disbursements (existence, occurrence, classification, accuracy, cutoff, completeness)
- F. Maximum dollar limits set for check payments and signature authorization (existence, occurrence)
- G. Treasurer (board member) approval of bank line of credit draws (existence, occurrence)
- H. Purchase order or check request required for all purchases (existence, occurrence)



ICFR vs. Internal Control Over Compliance–Example (cont)

Internal Controls – Financial Reporting

- I. Separation of duties (existence, occurrence)
- J. Voided checks are defaced and retained (existence, occurrence, completeness).
- K. Complaints from vendors or others are followed up by the controller (existence, occurrence).
- L. No checks will be generated before scheduled processing or made payable to cash. Blank checks are kept in a secure location (existence, occurrence, completeness).
- M. Proper cutoff is achieved by a review of all open invoices to ensure that they are recorded in accounts payable. Ten days into the next period the disbursements are reviewed to ensure proper cutoff (cutoff).



ICFR vs. Internal Control Over Compliance–Example (cont)

Internal Controls – Compliance (allowable costs)

The auditor wanted to be efficient and see how the internal controls over compliance for allowable costs (processed through the disbursement system) fit into the controls over financial reporting. She identified the following important controls identified over allowable costs:

- A. Personnel are held accountable for allocating charges and costs between federal and nonfederal activities.
- B. There is a process in place for the timely update of procedures for changes in activities allowed and cost principles.
- C. Computations are checked for accuracy.



ICFR vs. Internal Control Over Compliance–Example (cont)

Internal Controls – Compliance (allowable costs)

D. Supporting documentation is compared to a list of allowable and unallowable expenditures.

E. Adjustments to unallowable costs are made where appropriate and follow-up action is taken to determine the cause.

F. There is adequate segregation of duties in review and authorization of costs.

G. One person with adequate knowledge and training has accountability for determining activities allowed and allowable costs.



ICFR vs. Internal Control Over Compliance–Example (cont)

Internal Controls – Compliance (allowable costs)

She realized that the control overlap was really centered around two controls (controls 3 and 4) since the focus for compliance was not just completeness and accuracy but whether the costs were allowable under the terms of the Uniform Guidance and the grant program.

Compliance Control # 3: Computations are checked for accuracy.

Compliance Control # 4: Supporting documentation is compared to a list of allowable and unallowable expenditures.

She also realized that client personnel would have to take separate actions to accomplish compliance control # 4, even though it could be documented by client personnel with the same approval signature as financial reporting control "A."



Understanding the Difference Between a Process and The Controls Over That Process

- How a certain activity is processed
- Controls over a process
- Process is the steps followed
- Controls are activities performed to prevent or detect and correct errors



Process vs. Controls

“The grant accountant responsible for eligibility is familiar (**control 1**) with the policies for documenting eligibility determinations, as well as the procedures to calculate eligibility. The grant accountant receives documentation for persons seeking assistance and uses the information on the form to perform the calculations. Before approving the person as eligible and signing off, she looks to see if the form is complete, that the intake coordinator has initialed the form as having received the appropriate support for the form (i.e., looked at federal/state and medical support showing age, disability, income, etc.) and that a copy of the documentation is attached (**control 2**). The grant accountant completes the eligibility form (**control 3**) that includes the calculation and signs it signifying the person is eligible. It is returned to the intake department so the person can receive service. Periodically management reviews documentation for accuracy (**control 4 and 5**).”



Process vs. Controls (cont)

1. Written policies provide direction for making and documenting eligibility determinations.
2. Authorized signatures (manual or electronic) on eligibility documents periodically reviewed.
3. Manual criteria checklists or automated process used in making eligibility determinations.
4. Verification of accuracy of information used in eligibility determinations.
5. Procedures are in place to ensure the accuracy and completeness of data used to determine eligibility requirements.



Internal Control Over Compliance

SEFA	Identified as Major	D&M Compliance Requirements
Program A	X	Allowable cost, Cash management, Eligibility, Reporting
Program B		
Program C	X	Allowable cost, Cash management, Matching, Reporting, Monitoring Subrecipients
Program D		
Program E	X	Eligibility, Matching, Reporting
Program F		

Understand and test controls over **each** compliance requirement based on inherent and control risk (Risk of Material Noncompliance).



Planning Tests of Control

- Inherent risk of the compliance requirement for the major program
 - Inherent risk is higher
 - Inherent risk is lower
- Significance of the control
 - Control is significant
 - Control is moderately significant



Planning Tests of Control

Control Testing Sample Size Table – Population 250 or More Items	
Significance of Control and Inherent Risk of Compliance Requirement	Minimum Sample Size with 0 Deviations Expected
Very significant and higher inherent risk	60
Very significant and limited inherent risk or Moderately significant and higher inherent risk	40
Moderately significant and limited inherent risk	25



Determining Inherent Risk

- Length of time client has worked with the program
- Complexity of the processing (routine transactions vs. nonroutine, systematic vs. nonsystematic, manual vs. programmed), or judgment involved
- Significant deficiencies or material weaknesses in internal control identified in the past
- Notification from program officials that indicates there are potential problems
- Lack of compliance in the prior year



Determining Inherent Risk (cont)

- Volume of activity
- Substantial change in policies, processes or personnel associated with the requirement
- High client turnover in grant programs
- Program has been identified as higher risk by the OMB in the Compliance Supplement
- The size of the program is not the determining factor



Step 11: Understanding & Testing Internal Controls

- In understanding internal controls, the auditor looks at the design of controls and whether they have been implemented.
- To get to the effectiveness of controls, the auditor evaluates the result of testing.
 - Consistent application
 - Evidentiary support
- NA does not work for tests of controls (or even compliance testing). Sample with replacement.



Step 11: Understanding & Testing Internal Controls

- Types of procedures
 - Making inquiries of appropriate personnel
 - Inspecting documents and reports or electronic files
 - Observing the application of specific controls



Step 11: Understanding & Testing Internal Controls

- Document
 - A description of the control activity.
 - Who performs it, including the person's title.
 - How they perform the activity and how often.
 - What documents are used in performing the control, especially if they can be produced as evidence for the auditor.
 - What action is taken when there are errors.
 - How management satisfies themselves that the control is functioning.



Engagement Question

Which of the following is true?

- A. Obtaining an understanding of internal controls and testing its effectiveness is a require part of a compliance audit.
- B. Compliance testing by itself provides adequate evidence that controls are properly, designed, implemented and operating effectively
- C. The auditor is only responsible for testing the control activities relevant to compliance
- D. The auditor tests internal control relevant to financial reporting and understands internal over compliance.



Engagement Question- Solution

Which of the following is true?

- A. **Obtaining an understanding of internal controls and testing its effectiveness is a required part of a compliance audit.**
- B. Compliance testing by itself provides adequate evidence that controls are properly, designed, implemented and operating effectively
- C. The auditor is only responsible for testing the control activities relevant to compliance
- D. The auditor tests internal control relevant to financial reporting and understands internal over compliance.



Example – Determining the Controls to Test

• EXAMPLE

An auditor was working with a client with three major programs. Each of the programs had the compliance requirements allowable costs, cash management, period of performance, reporting and subrecipient monitoring. One program had eligibility as a compliance requirement.

The auditor obtained Part 6 of the Compliance Supplement and noted that it describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of federal laws, regulations, and program compliance requirements.

The auditor decided that it would be efficient to identify relevant entity level controls. Then she identified areas where the control activities were common to multiple programs. Finally, she determined which programs had compliance requirements where the systems were not common to multiple programs.

The auditor used a practice aid to identify the entity controls at the entity level that would cross-cut all programs and compliance requirements and to document the control activities in place at the compliance requirement level. The auditor was then able to evaluate the design of the controls and test to see if they were effective.



Testing Internal Control

- Sampling for internal control testing
 - Guidance has become more specific in Chapter 11 of the Audit Guide
 - Evaluate inherent risk of noncompliance
 - Evaluate significance of the control
 - Identify the sampling unit



Determining Sample Size

Control Testing Sample Size Table – Population 250 or More Items	
Significance of Control and Inherent Risk of Compliance Requirement	Minimum Sample Size with 0 Deviations Expected
Very significant and higher inherent risk	60
Very significant and limited inherent risk or Moderately significant and higher inherent risk	40
Moderately significant and limited inherent risk	25



Another Look at Inherent Risk

- Length of time client has worked with the program
- Complexity of the processing (routine transactions vs. nonroutine, systematic vs. nonsystematic, manual vs. programmed) or judgment involved
- Significant deficiencies or material weaknesses in internal control identified in the past
- Notification from program officials that indicates there are potential problems



Another Look at Inherent Risk

- Lack of compliance in the prior year
- High volume of activity
- Substantial change in policies, processes or personnel associated with the requirement
- High client turnover in grant programs
- Program has been identified as higher risk by the OMB in the Compliance Supplement



Determining Sample Size

Small Population Sample Size Table	
Frequency and Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2–4
Semi-monthly (24)	3–8
Weekly (52)	5–9



Evaluating Deviations

Acceptable Errors	LOW					MODERATE			HIGH		
	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
0	114	76	57	45	38	32	28	25	22	15	11
1	194	129	96	77	64	55	48	42	38	25	18
2	265	176	132	105	88	75	65	58	52	34	25
3	331	221	166	132	110	94	82	73	65	43	32

- Overall conclusion on controls
- Compliance testing vs. control testing
- Documentation



Considering Deficiencies in Internal Control

The auditor may identify deficiencies in internal control over compliance when:

- obtaining an understanding of internal control over federal programs,
- testing the effectiveness of internal control over federal programs, and
- performing compliance testing.



Forming a Conclusion on Controls

- Systemic nature of the deviation – if the control deviation is systemic, then it is more likely to lead to a finding.
- Intentional deviation – if the control deviation is the result of what the auditor believes may be fraud, then this requires more consideration than if it were clearly a mistake or lack of understanding.
- Pattern of deviation – if the deviation is similar to those the auditor has seen in the past, then this increases the likelihood that the deviation will need to be reported or that there is material noncompliance. The auditor may wish to perform additional tests to determine the effect of the deviation. In addition, if the client has not corrected a previously identified control deficiency, this also needs to be considered.



Forming a Conclusion on Controls

- The auditor will form a conclusion on the controls over a compliance requirement considering all of the evidence supporting his/her tests of controls. Only some of the controls are tested by attributes. Others may be tested by corroborative inquiry, observation, and review of documents.
- If the auditor believes that controls are not likely to be reliable, then they do not have to continue to test controls.
 - Report the control deficiency as a significant deficiency or material weakness.
 - Assess control risk related to requirements for the compliance requirement as high.
 - Consider the lack of effective controls when designing the compliance sample.



Deficiencies in Internal Control

- Evaluate deficiencies individually and collectively.
- Significant deficiency – less than a material weakness yet important enough to merit those charged with governance. Considered a finding, report in writing in the auditor’s report on internal control.
- Material weakness – reasonable possibility that material noncompliance will not be prevented or detected and corrected on a timely basis. Considered a finding, report in writing in the auditor’s report on internal control.
- Other deficiencies may be reported orally.



Example Dual Purpose Test

Vendor Name	Description	County		IC	IC	Comp	IC	Comp	IC	Comp	IC	IC	Comp
		paid date	Amount	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Service vendor 1	Admin Services	7/24/20X6	19,873.38	x		x	x	x					x
Service vendor 2	Admin Services	8/13/20X6	19,937.88	x		x	x	x					x
Service vendor 3	Project 1	9/2/20X6	156,763.84	x		x	x	x					x
Service vendor 3	Project 1	9/22/20X6	47,749.48	x		x	x	x					x
Service vendor 3	Project 1	10/12/20X6	267,900.39	x		x	x	x					x
Service vendor 4	Project 2	11/1/20X6	317,273.52	x		x	x	x					x
Service vendor 4	Project 2	11/21/20X6	41,997.20	x		x	x	x					x
Service vendor 4	Project 2	12/13/20X6	183,350.25	x		x	x	x					x
Service vendor 4	Project 2	12/30/20X6	10,747.50	x		x	x	x					x
Service vendor 5	Project 2	1/20/20X7	183,060.00	x		x	x	x					x
Service vendor 6	Project 3	2/9/20X7	325,565.40	x		x	x	x					x
Service vendor 6	Project 3	3/1/20X7	407,335.50	x		x	x	x					x
Service vendor 7	Project 3	3/21/20X7	662,838.00	x		x	x	x					x
Service vendor 8	Project 3	3/23/20X7	179,711.00	x		x	x	x					x
Service vendor 9	Project 4	4/10/20X7	527,490.00	x		x	x	x					x
Service vendor 10	Project 5	4/17/20X7	182,352.00	x		x	x	x					x
Service vendor 11	Project 6	5/20/20X7	61,350.00	x		x	x	x					x
Service vendor 11	Project 6	5/21/20X7	695,317.00	x		x	x	x					x
Employee 1	Payroll - Adm in	7/14/20X6	2,257.65	x		x			x	x			x
Employee 2	Payroll - Adm in	9/4/20X6	2,657.65	x		x			x	x			x
Employee 3	Payroll - Project	10/1/20X6	1,857.45	x		x			x	x			x
Employee 4	Payroll - Project	12/5/20X6	1,921.12	x		x			x	x			x
Employee 6	Payroll - Project	2/22/20X7	1,798.44	x		x			x	x			x
Employee 8	Payroll - Project	3/27/20X7	1,243.23	x		x			x	x			x
Employee 9	Payroll - Project	5/10/20X7	1,456.67	x		x			x	x			x
October 20X6						x							x
December 20X6						x							x
March 20X7						x							x
June 20X7						x							x



Example Dual Purpose Test (cont)

Tickmark Legend

- IC Internal control test
- C Compliance test
- x Procedures completed without exception
- (In part)
- (A) Allowable activities - internal control test - Looking for approval of Joe Client, County's CDBG Program Manager and Jane Woodall, County's Grant Accounting Manager, prior to payment. Audit firm vouched documentation of approval without exception.
- (B) Allowable activities - internal control test - Looking for documentation of review of monthly budget to actual results for the grant program reviewed by Jane Woodall, Grant Accounting Manager. Audit team noted review of statement without exception.
- (C) Allowable activities - compliance test - Audit Firm reviewed expenditure noting apparent compliance of the activity with grant requirements and the county's Consolidated Action Plan.
- (D) Allowable costs - internal control test - Looking for approval of Joe Client, County's CDBG Program Manager and Jane Woodall, County's Grant Accounting Manager, prior to payment. Audit firm vouched documentation of approval without exception.
- (E) Allowable costs - compliance test - Audit Firm reviewed expenditure noting apparent allowability of costs. This was evidenced by appropriate documentation following the applicable regulatory guidance.
- (F) Allowable costs - internal control test - Looking for approval of Joe Client, County's CDBG Program Manager and Jane Woodall, County's Grant Accounting Manager, of personnel expenditures prior to payment. Audit firm vouched documentation of approval without exception.
- (G) Allowable costs - compliance test - Audit Firm reviewed expenditure noting apparent allowability of costs. This was evidenced by appropriate documentation for personnel expenditures under applicable regulatory guidance.
- (H) Earmarking - internal control test - Looking for approval of Joe Client, County's CDBG Program Manager, and Jane Woodall, County's Grant Accounting Manager, prior to payment and entry to the general ledger. Audit firm vouched documentation of approval without exception.
- (I) Earmarking - internal control test - Looking for documentation of review of monthly budget to actual results, including the administrative earmarking calculation, for the grant program reviewed by Jane Woodall, Grant Accounting Manager.
- (J) Earmarking - compliance test - Audit Firm noted that the expenditures were properly grouped in the general ledger according to program/function to allow for proper earmarking testwork performed at working paper #1.

Conclusion

The controls over the allowable activities and allowable costs requirements appear to be in place, and the county appears to be in compliance with the allowable activities and allowable costs requirements for the CDBG program. The controls over the Earmarking, Level of Effort, and Matching requirements appear to be in place and (when considered in conjunction with testwork at working paper #1), the county appears to be in compliance with the earmarking compliance requirements for the CDBG program.



Documentation

1. Description of the control or compliance requirement being tested
2. Definition of the population and sampling unit as well as how the auditor considered the completeness of the population
3. Definition of what constitutes a deviation or exception
4. Desired confidence level, tolerable deviation or exception rate and the expected population deviation or exception rate
5. Sample size
 - Sample selection method (random, haphazard, systematic)
 - Sample items selected along with sufficient characteristics to support the control or compliance testing if used for a dual-purpose sample



Documentation

6. Evaluation of the sample
 - a. Deviation/exceptions
 - b. Important qualitative aspects of the deviation/exception
 - c. Projected population deviation or exception rate
 - d. Determination of whether the results support the test objective
 - e. Effect of the evaluation on other audit procedures (e.g., if control risk is other than low)
 - f. Determination of known questioned costs and estimation of likely questioned costs
 - g. Determination on whether the auditor's opinion on compliance will need to be modified or if the deviations will result in a finding
7. Any qualitative factors considered significant when making sample selections, assessments and judgments including multiple major programs, clusters, multiple components, or other factors
8. Summary conclusion if not evident

UNIT 3

TESTS OF COMPLIANCE REQUIREMENTS
APPLICABLE TO MAJOR PROGRAMS



Testing Compliance

- The auditor is required to test compliance requirements that would have a direct and material effect on each major program.
- Based on the results of that testing, the auditor will issue an opinion on whether the entity complied, in all material respects, with the requirements of laws regulations, contracts, or grants.
- The auditor will produce a schedule of findings and questioned costs.
- To provide an opinion on compliance, an auditor obtains sufficient appropriate evidence in support of compliance, reducing risk of noncompliance to low level.
- Audit risk of noncompliance and materiality, for each major program as well as for each direct and material compliance requirement in determining the nature, timing, and extent of compliance testing to be applied.



Deficiencies Found in Peer Reviews

- Audit documentation did not contain evidence of compliance testing for several compliance requirements. Although testing is not required if the requirements are not applicable, this was not noted in the audit documentation.
- Audit documentation did not include evidence to support that audit programs were used for auditing compliance and/or the schedule of expenditures of federal awards.
- Changes in state/federal eligibility requirements made during the year were not incorporated in the auditor's tests. This is important to ensure that the persons were properly eligible at the time of service.
- Certain programs such as Medicaid are identified as higher-risk programs in the compliance supplement, yet some auditors only test 25 or 40 compliance selections with no explanation as to how they were able to test compliance, as if this was a lower-risk program.
- No additional procedures performed in response to actual fraud that was found.



Using the Compliance Supplement

- Part 3 contains generic background information for each of the 12 types of compliance requirements. It includes suggested audit procedures.
- Part 4 contains unique background information about compliance requirements specific to a program by assistance listing number
- Part 5 provides information relative to clusters of programs, particularly R&D and Student Financial Aid.
- Part 7 provides information to build an audit program when there is no assistance listing number for the major program.



Suggested Audit Procedures – Part 3

Compliance requirement:	Suggested audit procedure:
Activities Allowed or Unallowed	When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.
Allowable Costs/Cost Principles	Test that direct costs charged to federal awards conformed to any limitations or exclusions set forth in 2 CFR 200, subpart E, (i.e., the Uniform Guidance for Federal Awards cost principles) or in the federal award as to types or amount of cost items.
Cash Management	Select a sample of advance payments and verify that the nonfederal entity minimized the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the nonfederal entity.



Suggested Audit Procedures – Part 3

Compliance requirement:	Suggested audit procedure:
Eligibility	Select a sample of individuals receiving benefits and perform tests to ascertain if: [1] The required eligibility determinations and redeterminations, (including obtaining any required documentation/verifications) were performed and the individual was determined to be eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both. Also, some programs require periodic redeterminations of eligibility, which should also be tested.); [2] Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program; and [3] Benefits were discontinued when the period of eligibility expired.



Suggested Audit Procedures – Part 3

Compliance requirement:	Suggested audit procedure:
Equipment and Real Property Management	Select a sample of equipment transactions acquired under federal awards and test for compliance with the state's policies and procedures for management and disposition of equipment.
Matching, Level of Effort, and Earmarking	Perform tests to verify that the required matching contributions were met.
Period of Performance	For federal awards with performance period ending dates during the audit period, test transactions for costs recorded during the latter part and after the period of performance and verify that the costs had been incurred within the period of performance.
Procurement and Suspension and Debarment	Test a sample of procurements to ascertain if the state's laws and procedures were followed and that the policies and procedures used were the same as for nonfederal funds (2 CFR section 200.317).



Suggested Audit Procedures – Part 3

Compliance requirement:	Suggested audit procedure:
Program Income	Perform tests to ascertain if program income was used in accordance with 2 CFR section 200.307(e) and the program requirements set by the federal awarding agency in its regulations and the terms and conditions of the award.
Reporting	Select a sample of reports and perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include: [1] comparing current period reports to prior period reports; [2] comparing anticipated results to the data included in the reports; and [3] comparing information obtained during the audit of the financial statements to the reports.
Subrecipient Monitoring	Review the pass-through entity's subrecipient monitoring policies and procedures to gain an understanding of the pass-through entity's process to identify subawards, evaluate risk of noncompliance, and perform monitoring procedures based upon identified risks.



Suggested Audit Procedures – Part 3

Compliance requirement:	Suggested audit procedure:
Special Tests and Provisions	For CFDA 93.268 Immunization Cooperative Agreements – In order to determine whether the grantee provides oversight of vaccinating providers to ensure that the required information has been recorded for vaccine recipients suggested audit procedures include: [1] determine if the grantee has a written procedure for ensuring that the required information has been recorded for vaccine recipients; [2] determine if the grantee tested a sample of vaccination records to ascertain if the required information was maintained; and [3] determine if the grantee took any follow-up action if the required records and information were not maintained.



FFATA – Special Reporting

- The Federal Funding Accountability and Transparency Act (FFATA) is not a new law.
- Purpose is to provide the public with the ability to hold the government accountable for each spending decision, reducing wasteful spending.
- The FFATA Subaward Reporting System (FSRS) is the reporting tool used by Federal prime awardees (prime contractors and prime grants recipients) to capture and report subaward and executive compensation data for their first-tier subawards.
- Prime contract awardees will report against subcontracts awarded and prime grant awardees will report against subgrants awarded. The subaward information entered in FSRS will then be displayed on www.USASpending.gov.



FFATA – Special Reporting

- Auditors were required to test FFATA compliance for major programs years when it was first created but the compliance requirement was discontinued.
- In 2020, the OMB brought it back for COVID-19 awards.
- Now it is required to be tested for all programs for audit years ending after September 30, 2020.
- FFATA requires that direct recipients of grants or cooperative agreements and prime contractors are required to report first-tier subawards of \$30,000 or more to the FFATA Subaward Reporting System (FSRS).
- Part 3 of the Compliance Supplement has a new requirement under Reporting (L) related to FFATA when the reporting requirement is applicable and the auditor has determined that reporting is direct and material.



FFATA Testing

1. Gain an understanding of the methodology used by the entity to identify awards subject to FFATA.
2. Select sample of awards. Obtain the subaward/subcontract and test to see if it is subject to FFATA reporting.
3. Go to the FSRS website and compare the information on the award (1) the date of the award and (2) the amount of the obligating action for subawards or face value of the first-tier subcontracts (inclusive of modifications) agrees to the award and that the reporting was on time.



FFATA Testing

4. If there were calculations that were made to reconcile the amount in the supporting data to what was reported, test them.
5. Obtain representations that what was provided by the client was a true copy of the award documents.
6. Report findings.



FFATA- Reporting Findings

The OMB recommends this format for reporting findings

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
40	1	0	2	1

Dollar Amount Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$2,000,000	\$50,000	\$0	\$75,000	\$0



Important Compliance Testing Considerations

- The major issue found by agency reviewers is that internal control and compliance tests were not adequately designed or documented to support the reports issued.
- Auditors inappropriately move straight to testing compliance requirements without documenting the level of control risk.
- The only way that the auditor can know the level of control risk is to test controls.
- The key is to document the relationship of the conclusions from control testing and relate those results to the amount of compliance testing performed.



Step 12: Choose a Compliance Sample

Compliance Testing

- Objective is to consider all evidence to support opinion
- Consider analytics
- Individually important items
 - Transactions processed at the beginning or end of an award (relates to activities allowed or unallowed, allowable cost but also period of performance.
 - Transactions processed at unusual times, e.g., new people are enrolled in a program in the middle of the year.
 - Transactions related to subrecipient monitoring, e.g., pass down of significant portion of the grant funds.
 - Transactions where there have been findings in the past.
 - Transactions that are processed out of the normal control structure.



Selecting a Compliance Sample

<u>Inherent Risk of Noncompliance</u>	×	<u>Control Risk of Noncompliance</u>	=	<u>Risk of Material Noncompliance</u>
High		High		High
High		Moderate		High
High		Low		Moderate to High
Moderate		High		Moderate to High
Moderate		Moderate		Low to Moderate
Moderate		Low		Low to Moderate
Low		High		Moderate to High
Low		Moderate		Low to Moderate
Low		Low		Low

The auditor evaluates inherent risk of the compliance requirement and control risk (including the risk of fraud) to determine the remaining risk of material noncompliance



Step 12: Choose a Compliance Sample

Minimum Sample Sizes

- Based on expectation of zero deviations
- Can use table for small population – add judgment
- Evaluate

Remaining Risk of Material Noncompliance	Minimum Sample Size
High	60
Moderate	40
Low	25



Compliance Sample – Healthy Kids Example

Healthy Kids Program CFDA # 10.574	Inherent risk	Control risk	Remaining risk of material noncompliance
<i>Allowable costs</i>	<i>M</i>	<i>L</i>	<i>L</i>

Program Name	Assistance Listing #	Amount	Payroll	Other	Passed to Subrecipient
Healthy Kids	10.559	\$815,350	\$365,250	\$400,100	\$50,000
Population # items			8 people X 12 mos. = 96	1,250	1
Expenditures as a % of total		100.00%	44.80%	49.07%	6.13%



Compliance Sample – Healthy Kids Example

Compliance Requirement.	Pertains To	Sample Size
A. Computation of expenditure amounts check for accuracy	Other Expenditures	25
B. Expenditure is allowable under the terms of the Uniform Guidance and the grant agreement	Other Expenditures	25
C. Expenditure coded as to proper grant (G/L code)	Other Expenditures	25
D. Expenditure is accurate and supported by appropriate documentation and is net of applicable credits	Other Expenditures	25
H. For salaries and wages, time reports reflect an after the determination of the actual activity of each employee. Budget estimates are not sufficient.	Payroll	15
I. Time report accounts for the total activity for which the employees are compensated.	Payroll	15
J. Time report is signed by the individual employee or by a responsible supervisory employee who knows the activities performed by the employee.	Payroll	15
K. Reports are prepared at least monthly and must coincide with one or more pay periods	Payroll	15
L. Subrecipient eligible to receive pass-through funding	Pass-through award to subrecipient	1



Compliance Sample – Healthy Kids Example

Continued

For each of the selections above, except the payment to subrecipients, these attributes will also be tested.		
E. Costs represent charges for actual costs, not budgeted or projected amounts	Other Expenditures	40
F. Cost is given consistent treatment within and between accounting periods	Other Expenditures	40
G. Costs is not used to meet cost-sharing requirements of other federally supported activities	Other Expenditures	40



Step 13: Perform Compliance Testing

Be Aware when Reviewing Evidence

- Evidence from independent source is best
- Information obtained directly is more persuasive than indirectly
- Effective internal controls = greater assurance
- Use as many tests as possible that combine:
 - Recording the correct amount, etc., in the correct period
 - Indications of internal control testing
 - Indications of compliance with laws and regulations
- Testing period of performance (do not test with allowable costs)



Step 13: Perform Compliance Testing

Compliance Supplement Not Available

Characteristics of compliance requirements to test:

- Those that are practical to test
- Those with available objective criteria to assess
- Those where audit objective supports opinion
- Those when testing permits certain actions or gives early warning

77

Kaplan Inc. Communications

2022



Step 13: Perform Compliance Testing

Workplan for Programs without an assistance listing number

- Step 1: Determine objectives, procedures, and compliance requirements for the program.
- Step 2: Determine which of the compliance requirements could have a direct and material effect on the program.
- Step 3: Determine which of the compliance requirements are susceptible to testing by the auditor.

12 categories of possible compliance requirements

78

Kaplan Inc. Communications

2022



Step 13: Perform Compliance Testing

Testing Compliance Requirements for Indirect Costs

- Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project.
- Considered a subset of administrative costs.
- In order to recover indirect costs, until recently, entities were required to prepare cost allocation plans (CAPs) or indirect cost rate proposals (IDCRPs) which apply to not-for-profit organizations
- De minimis rate is available to all entities now.
- Guidelines provided in the appendices to the UG.

79

Kaplan Inc. Communications

2022



Step 13: Perform Compliance Testing

Using the De Minimis Indirect Cost Rate

- The UG as revised in 218 provides for a minimum indirect cost rate of 10% of modified total direct cost (MTDC) for all entities
- There are entities that conduct a single function, which is predominantly funded by federal awards.
- If overhead costs are allocated directly to the program, and the entity may not charge the 10% de minimis rate.

Indirect Cost Proposals and Cost Allocation Plans

- The UG made very few changes related to distinguishing between direct and indirect costs.

80

Kaplan Inc. Communications

2022



Step 13: Perform Compliance Testing

Types of Indirect Cost Rates

- Predetermined rates are established for the current or multiple future periods based on current data.
- Fixed rates are based on current data in the same manner as predetermined rates, except that the difference between the costs of the base period used to establish the rate and the actual costs of the current period is carried forward as an adjustment to the rate computation for a subsequent period.
- Provisional rates are temporary rates used for funding and billing indirect costs, pending the establishment of a final rate for a period.



Step 13: Perform Compliance Testing

1. Compare indirect cost allocations to approved plans, the prior period actual and current budget.
2. Inspect the indirect cost rate workpapers prepared by the organization to determine if the methodology conforms to the UG and compare supporting data for the allocation to the approved plan.
3. Select a sample of cost allocation entries, review for approval, and compare supporting documentation. Select a sample of cost reimbursement requests and review the rate charged to see if it was the appropriate negotiated rate.
4. Test the indirect cost pools. Select a sample of items charged to the cost pools and determine whether they follow the provisions of the UG. See further discussion below.
5. Determine if the percentage for applying indirect cost met the required limitations, if any.



Step 13: Perform Compliance Testing

Some indirect cost proposals will result in multiyear agreements. When an indirect cost proposal has been tested in a prior year and this testing provides the auditor appropriate audit assurance, in subsequent years, the auditor is only required to:

- a. Perform tests to determine if there have been material changes to the cost accounting practices, including practices that would affect either the cost pools or the allocation base. And if so,
- b. Determine if the federal cognizant agency for indirect cost negotiation has been informed.



Step 13: Perform Compliance Testing

A not-for-profit organization submitted an IDCRP to the agency responsible for its cost cognizance in January 20X1, based upon costs incurred and charged to cost pools during fiscal year ending June 30, 20X0, so 20X0 is the base year. The resulting indirect cost rate agreement (IDCRA) negotiated during the year ending June 30, 20X1, would be used as the basis for charging indirect costs to federal awards in the year ended June 30, 20X2.

The auditor was planning for the 20X2 audit. This is the first time that the rate would be used for awards. As part of the 20X2 audit, the auditor knew that she had to test the IDCRP. She knew it might take longer for the client to go back to 20X0 and pull the documentation so she selected her sample a little earlier than she might. As expected, the client had a hard time finding documents, so the auditor made a mental note to test the cost pools the next time the client had a base year.

6/30/X0	1/X1 IDCRP	6/X1 IDCRA	6/30/X2
base year	submitted	negotiated	grants chg'd



Step 14: Summarize the Results of Audit Procedures (Part 1)

- Evaluate the results of compliance tests
- Deviation rate:

Sample Size = 25		Sample Size = 40		Sample Size = 60	
Deviations	Deviation Rate	Deviations	Deviation Rate	Deviations	Deviation Rate
0	0%	0	0%	0	0%
1	4.0%	1	2.5%	1	1.6%
2	8.0%	2	5.0%	2	3.3%
3	12.0%	3	7.5%	3	5.0%
4	16.0%	4	10.0%	4	6.6%

85

Kaplan Inc. Communications

2022



Step 14: Summarize the Results of Audit Procedures (Part 1)

- Evaluate the results of compliance tests
- Deviation rate:

Sample Size = 25		Sample Size = 40		Sample Size = 60	
Deviations	Deviation Rate	Deviations	Deviation Rate	Deviations	Deviation Rate
0	8.8%	0	5.6%	0	3.8%
1	14.7%	1	9.4%	1	6.4%
2	20.2%	2	12.8%	2	8.7%
3	24.9%	3	16.0%	3	10.8%
4	29.9%	4	19.0%	4	12.9%

86

Kaplan Inc. Communications

2022



Step 14: Summarize the Results of Audit Procedures (Part 1)

If questioned costs identified > \$25,000, report known amounts. If less, then extrapolate:

- Approach 1: Exception rate X total population = questioned costs

The auditor uses a sample of 60 and identifies four questioned costs. The errors are 100% of the sampling unit and the sample is homogeneous. That is, the sampling unit is one invoice, and it is deemed unallowable. The deviation rate is 6.6%. The population is \$600,000. The auditor calculates 3.3% of \$600,000, which is \$39,600. The auditor would report the known questioned cost.

- Approach 2: Project the dollar value of the error to the population

The population is \$600,000. The sample is \$200,000 of the population. The auditor identifies known questioned costs in the sample of \$7,500. She divides the known questioned costs (\$7,500) by the sample (\$200,000) and gets a 3.75% rate. She multiplies 3.75% times \$600,000 and the likely questioned costs are \$22,500. This amount does not exceed \$25,000 so the amount is not required to be reported as a finding.



Step 14: Summarize the Results of Audit Procedures (Part 1)

Documentation

1. Description of control or compliance being tested
2. Definition of population, sampling unit and consideration of completeness
3. Definition of what constitutes a deviation or exception
4. Desired confidence level, tolerable deviation or exception rate
5. Sample size



Step 14: Summarize the Results of Audit Procedures (Part 1)

6. Sample selection method
7. Sample items selected with support
8. Evaluation
9. Qualitative factors
10. Summary conclusion



Step 14: Summarize the Results of Audit Procedures (Part 1)

Compliance Testing Documentation Example–Eligibility

Objective: to ensure only eligible persons receive benefits, calculations were appropriate, and waiting list is properly used:

1. Reexamined
2. Verified
3. Determined
4. Selected

Results of Internal Control Testing and Compliance Testing



Documentation Example (cont)

Compliance requirements Tested

1. Reexamined family income and composition at least once every 12 months and adjust the total rent payment and housing assistance payment, as necessary
2. Verified the eligibility of applicants by: (a) obtaining signed applications that contain the information needed to determine eligibility (including designation as elderly, disabled, or homeless, if applicable), income, rent, and order of selection; (b) conducting verifications of family income and other pertinent information (such as assets, full time student and immigration status, and unusual medical expenses) through third parties; (c) documenting inspections and tenant certifications, as appropriate; and (d) determining that tenant income did not exceed the maximum limit set by HUD for the PHA's jurisdiction
3. Determined the total tenant rent payment in accordance with 24 CFR Section 5.613
4. Selected participants from the waiting list in accordance with the admission policies in its administrative plan and maintained documentation that shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list



Documentation Example (cont)

- Selection method for testing compliance by attributes: haphazard.
- Population: The number of applications approved or up for redetermination during the year was identified as the population. Cutoff testing was performed to ensure that the population was complete.
 - There were greater than 250 redeterminations during the year (compliance element 4).
 - There were only 75 approvals during the year (compliance elements 1-3).



Documentation Example (cont)

90%- 95% Confidence Interval- 4% Tolerable Deviation Rate	
Expected Population Deviation Rate	Sample Size
0	60
1	91
2	120

Testing 20 for approvals and 60 for redeterminations due to higher risk.

Small Population Sample Size Table	
Frequency and Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semi-monthly (24)	3-8
Weekly (52)	5-9



Documentation Example (cont)

Results of Internal Control Testing & Compliance Testing- *Internal Control and Compliance Test Attributes*

- A. Grants personnel have a list of re-verifications that need to be performed monthly. This sheet is consulted the month before the 12-month period ends. Personnel complete appropriate worksheet (internal control attribute).
- B. Reexamined family income and composition at least once every 12 months and adjusted the total rent payment and housing assistance payment, as necessary (compliance attribute).

	Individual/Family	Month	A	B
1	E. Baum	2/1/09	†	†
2	E. Odeye	2/1/09	†	†
3	M. Trudgeon	3/1/09	†	†
4	G. Clark	4/1/09	x	x

Tickmark Legend

- † Selected from sheet of redeterminations needed for month, redetermination correctly made.
- X Improper redetermination made, compliance deviation.

Selections 5-57 not shown

58	A. Sea	10/1/09	†	†
59	S. Curtis	11/1/09	x	x
60	J. Baker	12/1/09	x	x
Total Deviations			3/60	3/60



Documentation Example (cont)

Results of Internal Control Testing & Compliance Testing- *Internal Control and Compliance Test Attributes (Cont)*

- C. Grants personnel verify eligibility. Criteria are listed on a worksheet and grants personnel completed the worksheet after performing the required verifications (internal control attribute).
- D. Verified the eligibility of applicants by: (a) obtaining signed applications that contain the information needed to determine eligibility (including designation as elderly, disabled, or homeless, if applicable), income, rent, and order of selection; (b) conducting verifications of family income and other pertinent information (such as assets, full time student and immigration status, and unusual medical expenses) through third parties; (c) documenting inspections and tenant certifications, as appropriate; and, (d) determining that tenant income did not exceed the maximum limit set by HUD for the PHA's jurisdiction (compliance attribute).
- E. Determined the total tenant rent payment in accordance with 24 CFR Section 5.613 (compliance attribute).
- F. Selected participants from the waiting list in accordance with the admission policies in its administrative plan and examined documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list (compliance attribute).



Documentation Example (cont)

	Individual/ Family	Date	C	D	E	F
1	G Truman	1/13/09	†	†	†	†
2	F. Gonzales	1/28/09	†	†	†	†
3	Z. Frank	2/3/09	*	†	†	†
4	J. Auralias	2/25/09	*	†	†	†
5	B. Walker	3/16/09	x	x	x	x

Tickmark Legend

- † Employee performed control.
- X Employee failed to perform control.
- * Selection not tested for control.
- * Compliance sample was larger than control.

Selections 6–18 not shown

19	L Oslo	12/10/09	x	x	x	x
20	S Young	10/14/09	*	x	x	x
	Total exceptions		2/10	3/60	3/60	3/60



Documentation Example (cont)

Test	Sample Size	Conclusion
Compliance test	Requirement B: 60 tested 3 deviations (redeterminations)	5% deviation rate Material noncompliance due to the fact that the original applications have 15% noncompliance. This is significant in that it supports the pattern of lack of care which appears to be the cause with the original applications
	Requirements D-F: 60 tested 3 deviations (original applicants)	5% deviation rate Material noncompliance due to the fact that the original applications have 15% noncompliance



Engagement Question

How does the auditor determine sample size for compliance?

- A. The auditor will evaluate the inherent risk of the compliance requirement and select the sample size based on risk.
- B. The auditor will evaluate control risk related to the compliance requirement and select the sample size based on risk
- C. The auditor will evaluate inherent risk and control risk and select the sample based on risk
- D. The auditor will evaluate inherent risk, control risk and the risk of fraud and select the sample based on risk.



Engagement Question- Solution

How does the auditor determine sample size for compliance?

- A. The auditor will evaluate the inherent risk of the compliance requirement and select the sample size based on risk.
- B. The auditor will evaluate control risk related to the compliance requirement and select the sample size based on risk
- C. The auditor will evaluate inherent risk and control risk and select the sample based on risk
- D. The auditor will evaluate inherent risk, control risk and the risk of fraud and select the sample based on risk.**



Audit Deficiencies Noted

- Audit findings were identified but not reported.
- All findings should include the required elements, as applicable (condition, context, criteria, and effect or potential effect).
- No documentation of questioned costs or an explanation of why there is no questioned cost for all findings related to the noncompliance of federal programs.
- No corrective action plan for all findings (including deficiencies and noncompliance) that is reportable under *Government Auditing Standards*.
- Audit findings are not written in sufficient detail.



Step 15: Identifying and Writing Findings

GAGAS Required Reporting

- Significant deficiencies/material weaknesses in internal control over financial reporting
- Identified or suspected fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements- if material report as a finding
- If not material but warrants the attention of governance, report in writing to audited entity officials (including governance)
- If the instance of fraud or noncompliance does not warrant the attention of those charged with governance or is clearly inconsequential- auditor's judgment on how to communicate



Step 15: Identifying and Writing Findings

Uniform Guidance Requires Reporting

- Significant deficiencies or material weaknesses in internal control over major programs and significant instances of abuse
- Material noncompliance with provisions of federal statutes, regulations or the terms and conditions of federal awards
- Known questioned costs > \$25,000 or known questioned costs when extrapolated > \$25,000.
- Circumstances for other than unmodified report
- Known fraud affecting federal award
- Significant instances of abuse



Step 15: Identifying and Writing Findings

- If findings relate to both F/S and federal awards, report in both sections
- Identify where auditor's report on compliance is other than unmodified
- Instances of misrepresentation of any prior audit findings
- Identification of whether the audit finding was a repeat of a finding in the immediate prior audit



Step 15: Identifying and Writing Findings

Audit Finding Details

- Federal program and specific federal award identification
- Criteria
- Condition
- Cause
- Effects of possible effects
- Questioned costs



Step 15: Identifying and Writing Findings

- Perspective
- Repeat finding
- Recommendations
- Views of responsible officials
- Reference numbers
- Templates



Engagement Question

An auditor identified 3 deviations out of 40 items tested for allowable cost. The questioned costs were \$8,000 but extrapolated to more than \$25,000. Which would the auditor report?

- A. An internal control deficiency related to allowable costs
- B. A finding for \$8,000 and an internal control deficiency
- C. A finding for material noncompliance, also reporting the \$25,000 questioned cost.
- D. A finding for an internal control deficiency, material noncompliance, and also reporting the \$8,000 questioned cost



Engagement Question- Solution

An auditor identified 3 deviations out of 40 items tested for allowable cost. The questioned costs were \$8,000 but extrapolated to more than \$25,000. Which would the auditor report?

- A. An internal control deficiency related to allowable costs
- B. A finding for \$8,000 and an internal control deficiency
- C. A finding for material noncompliance, also reporting the \$25,000 questioned cost.
- D. A finding for an internal control deficiency, material noncompliance, and also reporting the \$8,000 questioned cost**

Unit 4

Single Audit Update



-
- Compliance Supplements**
- August 2021, the OMB released the 2021 Compliance Supplement (https://www.whitehouse.gov/wp-content/uploads/2021/08/OMB-2021-Compliance-Supplement_Final_V2.pdf)
 - Two addenda were issued
 - **Addendum 1 issued in December 2021**
 - **Addendum 2 was issued in January 2022**
 - Effective date is for years beginning after June 30, 2020 (June 2021 – March 2022)
 - Compliance supplement for 2022 was issued May 11, 2022
- 110 Kaplan Inc. Communications 2022



Compliance Supplements

- The supplements were updated for changes in the Uniform Guidance (UG) which was issued in August 2020.
- When the UG was first issued the document made a distinction in the guidance between awards before and after the effective date of the original guidance.
- This time the before and after guidance was **not** listed as 3.1 and 3.2.
- The auditors are instructed to check the award terms against the effective date of the UG which was November 12, 2020.

111

Kaplan Inc. Communications

2022



Compliance Supplements

- The procurement thresholds were revised.
- Simplified Acquisition Threshold is now \$250,000
- Micro-purchase threshold is \$10,000.
- Some federal agencies have been late in adopting the revised UG into their regulations.
- The procurement, suspension and debarment section of the supplement was revised to provide a waiver related to the situation.
- Auditors are **not** expected to develop audit findings for entities that implemented increased thresholds for all awards after November 12, 2020.

112

Kaplan Inc. Communications

2022



Compliance Supplements

- Changes were made in the “reporting” compliance requirement section.
- FFATA requirements were incorporated in this section along with guidance on when auditors **must** test FFATA.
 - Reporting compliance requirement is marked “Y” and the auditor determines reporting to be direct and material.
 - Recipient makes first-tier subawards/subcontracts of \$30,000 or more to report subaward data to FSRS
- Compliance supplement lists a few programs where FFATA testing is not required. (CRF and CSLFRF in 2022)
- Requirements for reporting information for FFATA noncompliance is included



Compliance Supplements

- Clarifications were made in the section discussing the audit work to be performed in Part 3 of the Compliance Supplement.
- Testing is only required for key line items that are quantifiable and capable of evaluation against objective criteria
- If no key line items are identified the auditor only needs to test that performance/special reports were submitted in a timely manner.



Higher Risk Programs

- Identification of programs as “higher risk”
 - Auditor is not precluded from determining that a higher risk non-ARP type A program or other cluster is **low risk** if the program otherwise meets low risk criteria (200.518) **AND** the percentage of COVID-19 funding in the program or other cluster is not material to the program or other cluster as a whole.

EXAMPLE

An auditor identified the Airport Improvement (COVID-19) program on the SEFA. He looked at the expenditures to determine how much, if any, was COVID-19 funding for the year ended June 30, 2021 were only 3% of the expenditures in the program and therefore were not considered material to the program. Another program on the SEFA was the CRF program. 100% of the expenditures were COVID-19 related to this program was deemed to be a major program.



Higher Risk Programs for 2022

- 20.500/20.507/20.525/20.526 Federal Transit Cluster
- 21.023 Emergency Rental Assistance
- 93.461 COVID-19 Uninsured
- 20.106 Airport Improvement Program
- 93.778/93.777/93.775 Medicaid cluster
- 93.498 Provider Relief Fund
- 84.425 Education Stabilization Fund
- 21.027 Coronavirus State and Local Fiscal Recovery Funds
- 20.315 National Railroad Passenger Corporation Grants
- 32.009 Emergency Connectivity Fund Program

Note: The Coronavirus Relief Fund program was considered “higher risk” in 2021



Higher Risk Programs

- Inclusion of COVID-19 funding in the R&D cluster does not create a higher risk designation for that cluster.
- It's likely that the threshold for A/B will be higher for entities that receive significant funding.
- Type B risk assessments- there are no changes for the risk assessment process used to identify high risk B programs.
- If a B program is identified as higher risk in the Supplement, this is only one characteristic.



Donated Personal Protective Equipment

- Personal Protective Equipment Purchased with Federal Assistance Funds
- Federal agencies and recipients can donate PPE purchased with Federal Assistance Funds to various entities for the COVID-19 response
- The donated PPE were mostly provided **without any compliance or reporting requirements** or assistance listing (CFDA) information from the donors
- Non-federal **entities that received** donated PPE should **provide the fair market value** of the PPE at the time of receipt as a stand-alone footnote accompanying their SEFA
- Donated PPE should **not** be counted for purposes of determining the threshold for a single audit or determining the type A/B threshold for major programs.
- Because donated PPE has **no bearing on the single audit**, the donated PPE footnote may be marked "unaudited"



Identification of COVID-19 Funding on SEFA

- Format for presentation on the SEFA

93.558	COVID-19 Temporary Assistance for Needy Families	\$ 1,000,000
93.558	Temporary Assistance for Needy Families	3,000,000
93.558	Total Temporary Assistance for Needy Families	\$ 4,000,000

Federal Award Findings and Questioned Costs

2020-001

Grantor: Department of Health and Human Services

Program Name: COVID-19 Temporary Assistance for Needy Families

Federal Award Year: June 1, 2019 through May 31, 2020

Federal Award Number: 5PFG789

Assistance Listing Number: 93.558

Criteria or Requirement

A non-Federal entity may charge to the Federal Award only allowable costs during the period.....

119

Kaplan Inc. Communications

2022



Identification of COVID-19 Awards

SF- SAC Presentation

On a separate row by CFDA number with COVID-19 as the first characters in Part II, Item 1c, Additional Award Information.

Row Number (auto-generated)	CFDA #		Additional Award Identification ¹	Federal Program Name	Amount Expended	Cluster Name	Federal Program Total ⁴ (auto-generated)	Cluster Total ⁵ (auto-generated)
	Federal Awarding Agency Prefix ¹	CFDA Three-Digit Extension ²						
					(\$)		(\$)	(\$)
1	93	558		TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$3,000,000.00		\$4,000,000.00	
2	93	558	COVID-19	COVID-19 - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$1,000,000.00		\$4,000,000.00	
Total Federal Awards Expended =					\$4,000,000.00			

120

Kaplan Inc. Communications

2022



Removals from Clusters

- The 2021 and 2022 Compliance Supplements removed certain compliance requirements from certain programs/clusters.
- The audit advisory appendix states that all prior year findings are required to be presented in the summary of prior audit findings even if Part 2 (matrix of compliance requirements) does not identify this requirement as subject to audit.
- If there is a new requirement in a program or cluster in the current year, then the auditor is not expected to have tested for the requirement for the prior year audit.
- This is true even if there was an error in the Supplement that was corrected. This would be identified in Appendix V of the Supplement.



Additions to Clusters

- The auditor will evaluate Type A programs for risk.
- In order for the program to be considered low risk it must be audited as a major in one of the two most recent audit periods.
- Since programs that are in clusters are audited as one program the auditor needs to consider any programs added in the current year when determining the risk of the cluster.
- An “other cluster” cannot be considered audited in one of the two most recent audit periods unless the current year expenditures for the newly added program were less than or equal to 25% of the Type A threshold or all of the programs included in the resulting other cluster met the 2 year look back criterion and other criteria to be a low risk A program.



Case Study 2

An auditor was evaluating a cluster where a program was added in the current year. The Type A program threshold was \$750,000. The cluster had 3 assistance listing numbers in it 93.123, 93.125 and 93.127 in the prior year. When it was audited in the prior year there were no audit findings. A new assistance listing number 93.129 was added in the current year, so the cluster now has 4 programs. In the current year the cluster consists of

AL #	Amount
93.123	500,000
93.125	300,000
93.127	400,000
93.129	300,000
Total	1,500,000

Type A threshold is \$750,000.
 $\$300,000/\$750,000 = 40\%$



Cautionary Reminders for 2021 and 2022 Audits

- Programs and amounts may be harder to identify for SEFA purposes since there was so much COVID-19 funding and much of it passed to subrecipients.
- Awardees may need to go to the agency website if the information they need is not included in the award document
- Auditees may find that they are facing several challenges:
 - Cash is received before the award/terms and conditions are agreed to
 - The auditee may have the opportunity to choose which year to expend the funds
 - PRF funding has a different reporting timetable and is treated differently from other funding



Auditees May Not Be Prepared

- More entities crossing the \$750,000 expenditure threshold causing them to have Single Audits where they did not have them before.
- This situation may result in findings if the appropriate internal controls were not developed.
- If substantial awards were made mid-year, internal controls may have changed mid-year.
- More entities may have subrecipients this year so the compliance requirement, “monitoring subrecipients”, when applicable is more likely to be direct and material.
- Audit advisories appendix has identified audit sampling as a risk
- Firms were cautioned in the advisory to take care to properly document all elements related to the sample size for testing, especially the justification for the sample size.
- This has also been a deficiency noted in peer reviews.



21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- 21.027 Coronavirus State and Local Fiscal Recovery Funds (FRF) –The Very large program from the Department of the Treasury. Totals \$350 billion, 30,000 recipients.
- Generally state and local governments are the recipients of direct funding
- Funds can be passed down to not-for-profits by state and local governments.
- A significant amount of the funding is provided to non-entitlement units (NEU).
- NEUs are local governments typically serving a population under 50,000 that receive funding through their states.
- The award amounts are based on the population of the NEU. NEUs are considered **direct** recipients of the funding
- Treasury guide for NEU’s at https://home.treasury.gov/system/files/136/NEU_Guidance.pdf .



21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- 21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) – Broad use of funds
 - Support public health expenditures by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff
 - Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
 - Replace lost public sector revenue to provide government services; recipients may use this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
 - Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors;
 - Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet



21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- Funding may not be used to:
 - pay pension contributions
 - satisfy settlements or judgments
 - pay debt service or off
 - set a reduction in net tax revenue
- Identified as a “higher risk” program
- Under the CSLFRF program, funds must be used for costs incurred on or after March 3, 2021.
- Funds must be obligated by December 31, 2024, and expended by December 31, 2026.



21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- The program includes the concept of lost revenue.
- Lost revenue is included as a provision in a different way for this grant.
- Program uses lost revenue as a cap for the amount of funding to be spent for the “provision of government services.”
- Compliance supplement notes that a simplification allows a standard allowance for lost revenue up to \$10 million not to exceed the award amount.
- One time election that is reported to the Treasury.
- Simplification guidance is effective on April 1, 2022, but recipients can take advantage of the simplification as of January 19, 2022.



21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- This means that for many the entire award may be spent on government services.
- Award recipients can choose between accepting that amount for government services or calculating the amount.
- Instructions for calculating the cap on spending for lost revenue is in the final rule.
- The standard amount streamlines reporting requirements.



21.027 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- The Treasury received approval from the OMB to increase the subaward reporting threshold from \$30,000 to \$50,000. FFATA reporting is required for all recipients. **FFATA reporting is not subject to audit.**
- Lost revenue is not reported on the SEFA. Expenditures allowed due to lost revenue are.
- NEUs are considered direct recipients and report their award expenditures on the SEFA and data collection form as direct awards.
- States do not report award funds required to be distributed to NEUs on state SEFAS or the data collection form.

131

Kaplan Inc. Communications

2022



CSLFRF - Alternative Audit Requirement

- Certain recipients are eligible for an alternative compliance examination performed under the Yellow Book and using the AICPA's attestation standards.
 - NEUs
 - Smaller entities with direct funding
- Practitioner tests narrowly scoped compliance requirements related to Activities Allowed/Allowable Costs.
- The attestation guidance is found in AT-C 315 and also incorporates guidance from AT-C 105, *Concepts Common to All Attestation Engagements*, and AT-C 205, *Assertion-Based Examination Engagements*.

132

Kaplan Inc. Communications

2022



CSLFRF - Alternative Audit Requirement

- To be eligible for this alternative the FRF recipient that expends \$750,000 or more must meet these requirements.
 - CSLFRF allocation was received directly from the Treasury or received as an NEU is below the \$10 million revenue loss standard allowance
 - Other Federal expenditures not from FRF are less than \$750,000 during the fiscal year.



CSLFRF - Alternative Audit Requirement

- In this alternative engagement:
 - Financial statement audit is not required
 - SEFA is not prepared
 - An understanding of internal control is required but testing is not
 - Compliance requirements are tested
 - Engagement reporting is simplified



CSLFRF - Alternative Audit Requirement

AICPA created a practice aid with illustrative reports. The practitioner will issue

- Opinion on compliance with the specified requirements based on the practitioner's examination.
- Schedule of findings and responses (if applicable)
- Illustrative reports were prepared in accordance with AT-C 315, *Compliance Examinations*, and Government Auditing Standards (Yellow Book).
- A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements of the attestation standards and the Yellow Book.



CSLFRF - Alternative Audit Requirement

- August 11, 2022 the Dept of Treasury issued document, *Alternative Compliance Examination Engagement Report User Guide*.
- Provides guidance on how to submit the alternative compliance examination engagement through Treasury portal.
- Only temporary until the FAC can update the DCF



Education Stabilization Fund

- The ESF funding is divided into three subsections.
- Section 1 covers primary and secondary schools.
- Section 2 covers higher education. The final section is identified as “other programs”.
- Section 1 was updated in the addendum to address ARP funds (84.435 U and X). Section 2 was already updated for ARP in the original compliance supplement.
- The addendum includes an example of the data collection form (SF-FAC) as illustrated above. Column C is where the auditee would put the subprogram letter (e.g. A, B, CU, X).
- Audited as one program for major program purposes
- Identified as “higher risk” program



Education Stabilization Fund

- Note that subprogram Q is for commercial entities (for profits). They do not report on the data collection form.
- Nonpublic schools participating in CRRSSA or ARP are not considered recipients of federal financial assistance and are not subject to single audit requirements
- Auditors should take care to use the guidance that is appropriate in the situation.
- Changes made to compliance requirements.
- Effective 3/15/22 subgrantees of HEERF funds may expend them on construction and real property for projects that are connected to the purpose of the program (corona virus) with ED approval



ESF Challenges

- Rules for the program are different depending on the tranche of funding
- Education's use of one AL# with alpha characters is challenging
- Determining that the SEFA is complete and accurately identifies the subprograms
- NEW! ED FAQ
 - Beginning 3/15/22 institutions may repurpose previously spent HEEFF(a)(2) grant funds to unobligated (a)(1) institutional grants to maximize the amount of HEERF grants available for construction, renovation, or real property projects when certain conditions are met- approval from ED



ESF and the Data Collection Form

- Example of DCF section – Column C describes the “Letter” of the program
- For clients with funding under programs U and X and Section 2 programs, use both the addendum guidance and the original release. **BE SURE TO DOCUMENT WHAT IS USED**
- For audits with report dates prior to the issuance of this guidance, auditors are not required to go back retroactively to review these two programs based on the recently issued guidance



Proprietary Schools

- HEERF Audit Requirements for Proprietary Schools
- Originally issued March 2021 and updated May 2022
- Applies when proprietary schools have HEERF funding of \$500k or more during a fiscal year
- For schools on the FSA's Heightened Cash Monitoring 1 or 2 lists, the audit is required for fiscal years in which the school expends **any** HEERF grant funds or has closed or is in the process of closing.
- HEERF compliance audit must be conducted in accordance with GAGAS and the Guide.
- Guide requires an examination-level attestation engagement.



Provider Relief Program (PRF)

- PRF is administered by the Health Resources and Services administration (HRSA).
- COVID-19 program that supports eligible healthcare providers by providing awards for allowable expenditures and lost revenue.
- Pre-award costs are considered eligible circumstances if they were used to prevent, prepare for and respond to the coronavirus.
- PRF expenditures and lost revenue are reported through the PRF portal.
- Reporting time period signals the reporting on the SEFA.
- PRF award is reported in a different time frame than other awards that are reported on the timing of expenditures.



Provider Relief Program (PRF)

- HRSA has issued two fact sheets
- Independent Audit Requirement Fact Sheet-answers questions that HRSA has received about auditing requirements.
- Parent-Subsidiary Reporting Fact Sheet- covers how both the general and targeted distributions are to be reported for recipients that are part of consolidated entities. The guidance is useful in that it provides guidance on how distributions that are transferred between the parent and the subsidiaries are to input in the reporting portal.



Provider Relief Program (PRF)

- The ARP clarified several items in the 2022 Compliance Supplement.
- The name of the program was updated to Provider Relief Fund and American Rescue Plan Rural Distribution.
- Auditors should use this name on 2022 SEFAs.
- The 2022 Supplement clarified that ARP rural distributions may only be used to reimburse providers associated with the applicable subsidiary or billing TIN and cannot be transferred to another entity.
- Guidance was added about the 4th phase of the PRF General Distribution.
- The Out-of-Network Patient Out-of-Pocket Expenses special test was removed, and Special Tests and Provisions changed to “No” in matrix (to reflect recent OMB Technical Update issued in 4/2022).



Reporting Requirements – PRF

• Drives reporting

	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Deadline to Use Funds	Reporting Time Period	Fiscal YE to include on SEFA
Period 1	From April 10, 2020 to June 30, 2020	June 30, 2021	July 1, 2021 to September 30, 2021	June 30, 2021 through June 29, 2022 (2021 CS)
Period 2	From July 1, 2020 to December 31, 2020	December 31, 2021	January 1, 2022 to March 31, 2022	December 31, 2021 through December 30, 2022 (2022 CS)
Period 3	From January 1, 2021 to June 30, 2021	June 30, 2022	July 1, 2022 to September 30, 2022	June 30, 2022 through June 29, 2023 (2022 CS)
Period 4	From July 1, 2021 to December 31, 2021	December 31, 2022	January 1, 2023 to March 31, 2023	December 31, 2022 through June 29, 2023 (2022-2023 CS)
Period 5	January 1, 2020 to June 30, 2023	June 30, 2023	July 1, 2023 to September 30, 2023	June 30, 2023 to be included in 2023 Supplement (2023 CS)

145

Kaplan Inc. Communications

2022



PRF Challenges

- PRF linkage of portal reporting to SEFA reporting- mistakes being made
- Determining compliance and related findings- FAQs continued to change and findings are based on the guidance in effect at the time.
- Not in 2022 supplement but HRSA issued an FAQ 1/2022 confirming that entities may choose a different methodology for calculating lost revenues during subsequent reporting periods. See HRSA FAQ.
 - New methodology must be used to calculate lost revenues for the entire period of availability.
 - Entities must justify the change

146

Kaplan Inc. Communications

2022



PRF Challenges- Testing

- PRF portal report will probably have more expenditures and lost revenue than the client received from HRSA
- Auditor tests report balances and not what was applied
- Auditor tests expenditures even if the client has more lost revenue than the funds received from HRSA
 - HRSA applies award to expenses first
 - Errors in the report are findings and could be questioned costs
- Clients may be unhappy because they reported more than spent but if the report has an error in it then it's a finding.



Provider Relief Program (PRF)

- Matrix of Applicable Compliance Requirements

Compliance Requirement	Applicable
Activities allowed/unallowed	Yes
Allowable cost/cost principles	Yes
Cash management	No
Eligibility	No
Equipment/real property management	No
Matching, level of effort, earmarking	No
Period of performance	No
Procurement, suspension & debarment	No
Program Income	No
Reporting	Yes
Subrecipient monitoring	No
Special tests & provisions	Yes /no

← Yes 2021/ No 2022



Reporting Requirements – PRF

- Under the category reporting there are no financial reporting or performance reporting audit requirements.
- There are special reporting requirements for:
 - the calculation of lost revenue
 - nursing home infection control expenses
 - other provider relief fund expenses
- Each is separately identified on the report uploaded to the portal.
- Since the PRF amounts to be reported on the SEFA are based on the PRF report and it is to be tested, auditors should consider delaying the issuance of the compliance audit until the recipients have completed the PRF report.
- The auditor will also test FFATA reporting for the PRF program. This is included under special reporting requirements in Part 4 of the compliance supplement.



PRF Funding - Lost Revenue

- Three ways to calculate lost revenue. If option 3 is chosen and HRSA does not agree then one of the other two must be selected.

Lost Revenue Option	Information needed for reporting lost revenue
Option 1: Difference between actual patient care revenue	<ul style="list-style-type: none"> ▪ Actuals for each quarter during the period of availability ▪ Actual for 2019
Option 2: Difference between budgeted and actual patient care revenue	<ul style="list-style-type: none"> ▪ Actuals for each quarter during the period of availability ▪ Budgets for each quarter during the period of availability ▪ Copy of the budget approved before March 27, 2020 ▪ Executive-level attestation
Option 3: Any reasonable method of estimating revenue	<ul style="list-style-type: none"> ▪ Narrative document describing the methodology, including an explanation of why the methodology is reasonable and a description on how lost revenue were attributable to COVID as opposed to some other cause. ▪ Calculation of lost revenue attributable to COVID using the methodology described in the document.

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/prf-lost-revenues-guide.pdf>



In-Relation-to-Opinion

- Paragraph .05 of AU-C 725 requires that supplementary information relate to the same period as the financial statements for the auditor to issue an in-relation-to opinion on the supplementary information.
- Will the in-relation-to opinion on the financial statements be a modified opinion?
- The AICPA in Q&A 9160.36 reminds practitioners that when the SEFA is cash basis and the statements are accrual, this could result in differences.
- Q&A 9160.27 -the auditor may provide an in-relation-to opinion on the financial statements as long as the schedule can be reconciled back to the underlying accounting records or the financial statements.



For-Profit Entities and PRF

- AICPA issued a Practice Aid that contains illustrative reports for the financial audit option
 - FAQs
 - Illustrative schedules, notes and audit reports for GAAP and cash basis
 - Primer on GAS
- This is related to HHS grants and covers:
 - 93.498 PRF
 - 93.461 COVID-19 Claims Reimbursement for Uninsured program
 - 93.697 Testing and Mitigation for Rural Health Clinics
 - Other HHS awards such as NIH Research R&D grants
 - Does not include Medicare received for patient services



For-Profit Entities and PRF

- Entities can choose between a GAGAS Financial Audit, a Single Audit and if there is only 1 program, a program specific audit.

	GAGAS Financial Audit	Single Audit	Program Specific Audit
Criteria	1 or multiple programs	1 or multiple programs	ONLY 1 program
F/S audit required	NO	YES	NO
Presentation	Schedule of an element of F/S	SEFA	Schedule of an element of F/S
Auditor reporting	AU-C 805	AU-C 725	AU-C 805
GAGAS report on IC & compliance	Yes	Yes	See chapter 14 of Audit Guide
Auditor Opinion on IC & Compliance	No	Yes	Yes



Schedule of Revenue

- When the entity chooses the financial audit option, the auditor will title the Schedule with a caption such as Schedule of Revenue, Other Revenue or Grant Income.
- Schedule is titled this way because lost revenue is not technically an expenditure.
- However, lost revenue reimbursement and expenditures both result in revenue on the financial statements. Following is an example of the Schedule and the Notes to the Schedule.

Illustrative Schedule of Revenue

Schedule of Revenue from the US Department of Health and Human Services (HHS) Awards			
For the HHS Provider Relief Fund Periods of Availability which ended in the year ended December 31, 2021 and for other HHS Awards for the year ended December 31, 2021			
Federal Department/Program Title/ Grant Name	Assistance Listing Number	Amounts recognized in accordance with GAAP for the Year ended December 31, 2020	Amounts recognized in accordance with GAAP for the Year ended December 31, 2021
Department of Health and Human Services Health Resources and Services Administration (HRSA)			
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution- Period 1	93.498	1,000,000	
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution- Period 2	93.498	1,000,000	300,000
COVID-19 HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the OVID-19 Coverage Assistant Fund Testing for the Uninsured	93.461	N/A	130,000
Other HHS Awards (as applicable)	93.XXX	N/A	
		<u>2,000,000</u>	<u>430,000</u>

155

Kaplan Inc. Communications

See notes to the Schedule of Revenue from HHS Awards.

2022

Notes to the Schedule of Revenue

NOTE 1. GENERAL

Hospice Care of South Tampa (the Company) is a hospice provider caring for patients in the Tampa Florida area. It cares for patients in nursing facilities, hospitals and in their homes. Federal funds were received in awards from the U.S. Department of Health and Human Services (HHS), including through federal programs established by legislation issued in response to the COVID-19 pandemic (e.g., Coronavirus Aid, Relief, and Economic Security (CARES) Act or the American Rescue Plan (ARP)).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Schedule of Revenue from HHS Awards (the schedule) is prepared in accordance with accounting principles generally accepted in the United States of America. Because the schedule presents only a selected portion of the Company's revenue it is not intended to and does not present the financial position, changes in equity, or cash flows of the Company.

156

Kaplan Inc. Communications

2022



Notes to the Schedule of Revenue (con't)

Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution – Assistance Listing Number 93.498

For the HHS awards related to the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (PRF) program, HHS has indicated the amounts on the schedule be reported corresponding to reporting requirements of the HRSA PRF Reporting Portal. Payments from HHS for PRF are assigned to 'Payment Received Periods' (each, a Period) based upon the date each payment from the PRF was received. Each (each, a Period) based upon the date each payment from the PRF was received. Each Period has a specified Period of Availability and timing of reporting requirements. Entities report into the HRSA PRF Reporting Portal after each Period's deadline to use the funds (i.e., after the end of the Period of Availability).

The schedule includes \$2.3 million received from HHS between April 10, 2020 through December 31, 2020. In accordance with guidance from HHS, these amounts are presented as Period 1 and Period 2. Such amounts were recognized as revenue in the Company's financial statements as shown in the schedule in the years ended December 31, 2020, and December 31, 2021.



Notes to the Schedule of Revenue (con't)

HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund Testing for the Uninsured – Assistance Listing Number 93.461

For the HHS awards related to the HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund program (the Uninsured/CAF Program), the amounts on the schedule relate to the amount of revenue recognized in the financial statements during the period under audit. The schedule includes the total Uninsured/CAF Program revenue recognized in the year presented in the schedule to the extent an audit of HHS awards was required in the respective year.

Estimates

The preparation of the schedule in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount in revenue during the reporting period. Actual results could differ from those estimates. Subsequent Events The schedule and related disclosures include evaluation of events through March 25, 2022, which is the date the schedule was available to be issued.



Materiality and Section AU-C 805

- AU-C 805.14 - the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements.
- Auditor will need to use professional judgment.
- The Schedule of Revenue may have one program or more than one program.
- In the AICPA illustrative reports, the auditor has concluded that the entire schedule represents one element (that is, all HHS awards).
- Therefore, materiality is based on the total of all HHS awards included on the schedule.
- Auditor may conclude that even though the HHS awards are reported in two or more separate line items of the financial statements (e.g., grant revenue, patient services revenue, or other revenue), the schedule is still presenting one element since total HHS awards is what determines whether the HHS for-profit audit requirements apply.
- Other auditors may conclude that the schedule presents multiple elements and thus would need to determine materiality levels for each specific element.



FFATA – Special Reporting

- The Federal Funding Accountability and Transparency Act (FFATA) is not a new law.
- Purpose is to provide the public with the ability to hold the government accountable for each spending decision, reducing wasteful spending.
- The FFATA Subaward Reporting System (FSRS) is the reporting tool used by Federal prime awardees (prime contractors and prime grants recipients) to capture and report subaward and executive compensation data for their first-tier subawards
- Prime contract awardees will report against sub-contracts awarded and prime grant awardees will report against sub-grants awarded. The sub-award information entered in FSRS will then be displayed on www.USASpending.gov .



FFATA – Special Reporting

- Auditors were required to test FFATA compliance for major programs years when it was first created but the compliance requirement was discontinued.
- In 2020 the OMB brought it back for COVID-19 awards.
- Now it is required to be tested for all programs for audit years ending after September 30, 2020.
- FFATA requires that direct recipients of grants or cooperative agreements and prime contractors are required to report first-tier subawards of \$30,000 or more to the FFATA Subaward Reporting System (FSRS).
- Part 3 of the Compliance Supplement has a new requirement under Reporting (L) related to FFATA when the reporting requirement is applicable and the auditor has determined that reporting is direct and material.

161

Kaplan Inc. Communications

2022



FFATA - Reporting Findings

- The OMB recommends this format for reporting findings

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
40	1	0	2	1

Dollar Amount Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$2,000,000	\$50,000	\$0	\$75,000	\$0

162

Kaplan Inc. Communications

2022



Shuttered Venue Operators Grant Program

- Assistance Listing 59.075, the Shuttered Venue Operators Grant Program (SVOG) was new in 2021.
- Established by CRRSAA - \$15 billion to shuttered venues, theaters, and museums.
- Governments or not-for-profit entities will be subject to single audit rules.
- For profit entities will be subject to audit as well.
- Compliance Supplement 2022
- 3 compliance requirements- allowable cost, activities allowed/unallowed and period of performance.



Shuttered Venue Operators Grant Program

- For profit SVOG recipients and auditors were concerned about the audit submission deadline since the SBA was late in issuing details around the for-profit audit requirements.
- The SBA announced that for profits will get a 9-month audit submission extension from date of extension (July 22, 2022) or 9 months after the entity's year end, whichever is **later**
- Example- December 31, 2021 year end would be due by April 22, 2023 (this is 9 months from the extension date)
- September 30, 2022 would be due by June 30, 2023



Shuttered Venue Operators Grant Program

- Audit threshold for for-profit entities – based on GAAP principle of revenue recognition. If for profit receives a SVOG award and recognizes revenue in the amount of \$750,000 or more in its fiscal year the entity will have an audit.
- Accrual basis of accounting revenue is recognized based on allowable expenditures
- Cash basis of accounting, revenue is recognized when the award is received in cash, but the audit threshold is capped by the amount of allowable cash expenditures actually incurred in a fiscal year in or after the award was made.
- Entity uses its ordinary basis of accounting



SVOG Audit Guidance

- For-profit entities that are audited:
 - Entities do not need an additional audit under government auditing standards to meet the grant requirements. Just submit their audited financial statements under GAAS.
- For-profit entities that are not audited:
 - Entities can choose to have a program-specific audit, if the SVOG grant is the only source of Federal funding.
 - If the for-profit entity has more than one Federal funding source, they will require either a full financial statement audit or Single audit.
 - The entity can have a compliance examination under the attestation standards (AT-C 315)
 - The SBA created a document summarizing the contents of a compliance examination



2022 Compliance Supplement

- Compliance Supplement has 8 parts and 9 appendices.
- Part 2- Matrix of Compliance Requirements- this is where the changes from one year's supplement to the next are identified. The OMB rule of "pick 6" still applies but the 6 compliance requirements identified as applicable by an agency may differ from year to year. The Compliance Supplement highlights those changes in yellow.
- Part 8, Appendix V provides a high-level overview of the changes to the Supplement. The new, deleted and changed programs are identified here. Auditors will find it helpful to understand the status of their client's programs.
- Part 8, Appendix II includes regulatory citations for federal agencies' codification of the OMB guidance on the UG and non-procurement suspension and debarment in 2 CFR Part 180. It also identifies which agencies have not, as yet, adopted the UG.



2022 Compliance Supplement

- Part 8, Appendix III identifies federal agency-level contacts both single audit and management liaisons. Auditor may use these contacts to request information about the agency's programs generally or the audit requirements. The appendix also includes, for each program/cluster listed in parts 4 and 5 of the Supplement, the name of a specific individual who can be contacted concerning that program, along with the individual's contact information.
- Part 8, Appendix IV are the Internal Reference Tables. These list programs in parts 4 and 5 that include "Other Information" such as guidance on Type A and Type B program determination or display on the Schedule of Expenditures of Federal Awards. This appendix is particularly important as it identifies programs identified as higher risk and provides the guidance on how this designation impacts the auditor's determination of major programs.



2022 Compliance Supplement

- Part 8, Appendix VI includes a list of program-specific guides maintained by the federal agencies and indicates where to obtain them.
- Part 8, Appendix VII, *Other Audit Advisories*, provides information on
 - Coronavirus (COVID-19)
 - effect of changes to compliance requirements and other clusters
 - due date for submission of audit reports and low-risk auditee criteria
 - treatment of National Science Foundation and National Institutes of Health Awards
 - exceptions to the Guidance in 2 CFR Part 200
 - audit sampling.



Selected Programs

- **EIDL Loans (59.008)**
 - Only nonfederal entities with \$750K expenditures are subject to single audit requirements (no for profits need to have audits due to these loans)
 - SBA clarified Single Audit requirements are for EIDL loans ONLY in the year the funds are spent- no continuing compliance requirements
- **Restaurant Revitalization Fund, (59.078)**
 - New program that is provided by the SBA.
 - This program is not subject to Single Audit.



Selected Programs

- **Testing for the Uninsured (93.461)**
- No notice of award is received from HRSA, recipients agree to terms when they file for reimbursement
- FFS program. These are not typically on the SEFA.
- Trigger is revenue- not much guidance out on this.
- Challenges- provider believes based on research that the patient is uninsured only to submit claim and have it rejected. Also, person may become eligible for Medicaid after being deemed uninsured.
- When COVID related service is done incidental to the main purpose of the patient visit- determine allowability
- HRSA requires process in place to identify when inappropriate reimbursement occurs and return the funds
- Not considered an audit finding.

171

Kaplan Inc. Communications

2022



Selected Programs

- **Emergency Connectivity Fund Program (32.009)**
- School districts/libraries and vendors can apply
- Risk of being reimbursed twice
- Some entities may not realize funds are federal and different from E-Rate funding which is not subject to single audit.
- Funding does not come with an award letter
- Risk is that funds are not tracked and included on the SEFA
- Program may be administered by people who do not generally handle federal programs (IT)

172

Kaplan Inc. Communications

2022



Transition of FAC

- FAC is transitioning from Census to the General Services Administration (GSA) on 10/1/23 (reflects 1 year delay)
- Census continues to accept single audits for 2021 and will begin accepting FY 2022 single audits on October 1, 2022.
- Formal updates are being made to the Data Collection for to extend the use to 2022 audits.
 - Replacing DUNS number with the new Unique Employer Identification (UEI) number
 - Changes to permit the FAC to eventually accept the alternative compliance examination engagements for eligible CSLFRF recipients



Transition of FAC

- 200.512 states that single audits must be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.
- If it is not possible to meet the 30-day aspect of that requirement due to the timing of the opening of the GSA FAC for submissions, the audits will not be considered late if they are submitted within nine months after the end of the audit period.
- This provision still applies



Letters from Federal Agencies

- Increase in auditors receiving letters and other requests from federal agencies
- ED for SFA program
- HHS on situations where PRF was reported on SEFA in the wrong time period
- When requests involve access to audit documentation, refer to Interpretation 1 *Providing Access to or Copies of Audit Documentation to a Regulator* (AU-C 9230)



FEMA Challenges

- Nonfederal entity may apply for an award from FEMA (97.036), Disaster Grants using expenditures already charged to another federal program.
- Sometimes the expenses may have been included in PY SEFA as another program.
- Facts and circumstances dictate how this should be treated in the subsequent year.
- Entities should follow up with agency because it is not clear if this is even allowed.
- Instructions in compliance supplement on when an award exists (approved project worksheet and expenditures). Compliance supplement has not been updated for changed guidance.



IIJA Program

- Infrastructure investment and Jobs Act
- Enacted November 15, 2021
- \$274 Billion in funding DOT- most funding
 - EPA
 - Interior
 - Energy
 - Commerce
- Memorandum M-22-12 issued April 29, 2022 instructs agencies to consider if the programs funded with IIJA money will be higher risk
- AICPA and GAQC are reaching out to agencies to try to help and encourage them to build a compliance supplement.
- Programs that are created from the IIJA will not be federal programs for 2022 but will be in the 2023 Compliance Supplement. There is expected to be more oversight from Federal Agencies on this program



Cautions for 2022

- More oversight from Federal Agencies
- More findings expected related to COVID funding and new or inexperienced auditees
- Issues with FAC submissions
 - Amounts on SEFA do not match DCF
 - DCF does not properly identify major programs being audited
 - Required SEFA elements such as cluster names and totals, COVID funding, direct/indirect award etc. are not always properly identified on DCF
- Make a thorough review of DCF.



SAS 148, Amendments to AU-C 935, Compliance Auditing

- Understanding internal controls in a compliance audit
 - Controls over journal entries and other adjustments as required by AU-C 240
 - Controls for which the auditor plans to test operating effectiveness, which include:
 - controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence
 - controls that are **required to be tested for operating effectiveness** by the governmental audit requirement
 - other controls that, based on the auditor's professional judgment, the auditor considers appropriate to enable the auditor to identify and assess risks of material noncompliance and design further audit procedures.



SAS 148, Amendments to AU-C 935, Compliance Auditing

- For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess inherent risk by **assessing the likelihood and magnitude of noncompliance.**
- Auditor should take into account how, and the degree to which, inherent risk factors affect the susceptibility of compliance requirements to noncompliance
- Auditor should determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material noncompliance.



SAS 148, Amendments to AU-C 935, Compliance Auditing

- For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess control risk based on the auditor's understanding of controls and the auditor's plan to test the operating effectiveness of controls.
- If the auditor does not plan to test the operating effectiveness of controls, the auditor should assess control risk at the maximum level such that the assessment of the risk of material noncompliance is the same as the assessment of inherent risk. **Remember that testing controls over direct and material compliance requirements is not a choice.**



Report Forms

- AICPA has issued new report forms to correspond with SAS 134 language
- PRF – Report forms for for-profit entities have been published by the AICPA in its practice aid.
- SVOG- Report forms for for-profit entities
- CSLFRF- Report forms for for-profit entities.
- New HUD reports issued



Reminders

- Post event evaluation:** Please complete the course evaluation that will be pushed out to you as a pop up link on your screen. We welcome your feedback!

