



**Federal Awards:  
Client and Auditor Requirements**

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**July 19, 2019**

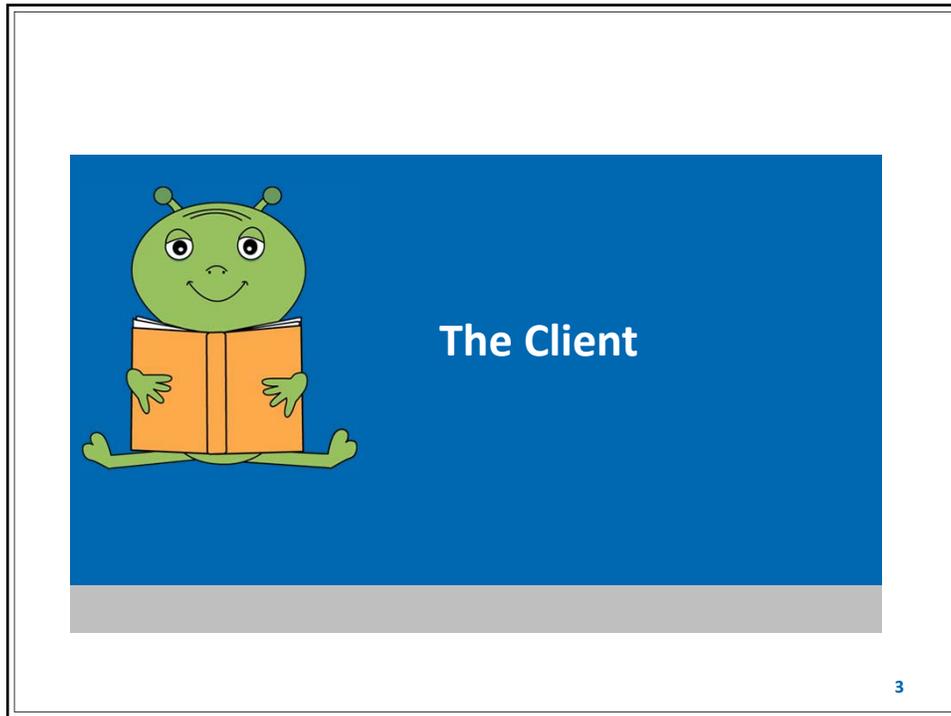
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## Terminology and Abbreviations

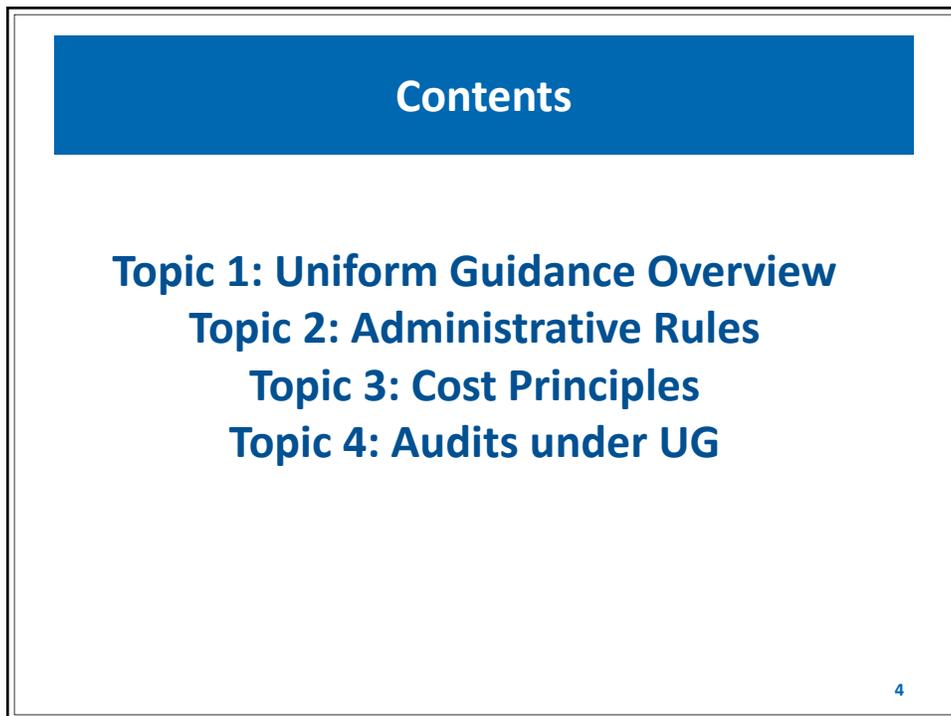
CPE	Continuing Professional Education	HUD	U.S. Department of Housing and Urban Development
ED	Exposure Draft	IT	Information Technology
F/S	Financial Statements	OMB	Office of Management and Budget
GAAS	Generally Accepted Auditing Standards	PR	Peer Review
GAGAS	Generally Accepted Government Auditing Standards or Yellow Book	SKE	Skill, Knowledge, or Experience
GAO	Government Accountability Office	SSARS	Statements on Standards for Accounting and Review Services
GAS-SA Guide	AICPA Audit Guide, Governmental Auditing Standards and Single Audits	TCWG	Those Charged With Governance
GASB	Government Accounting Standards Board	UG	Uniform Guidance
		YB	Yellow Book

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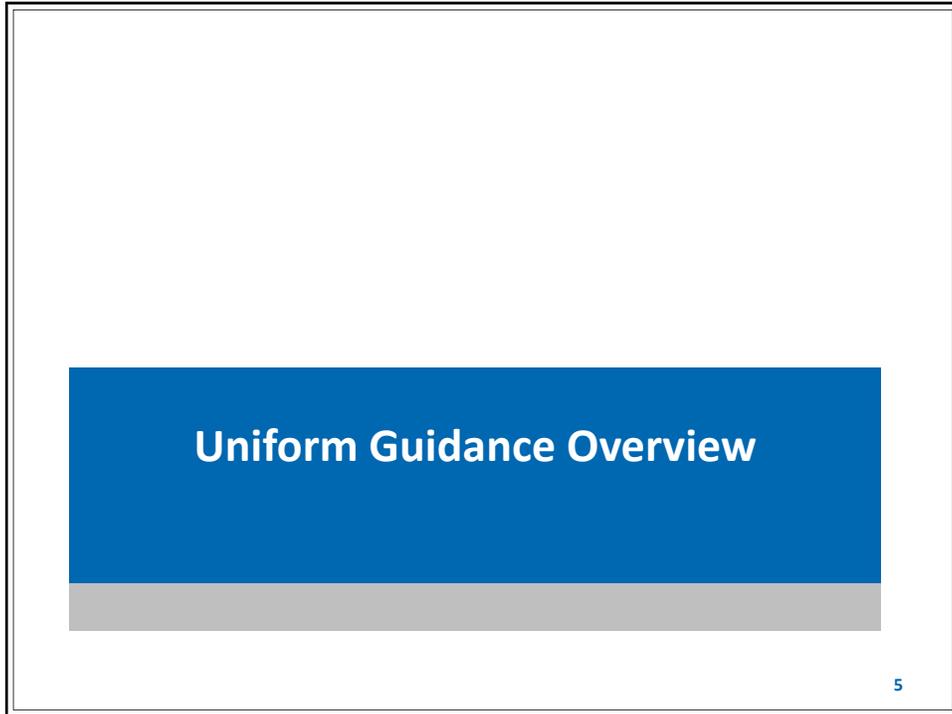
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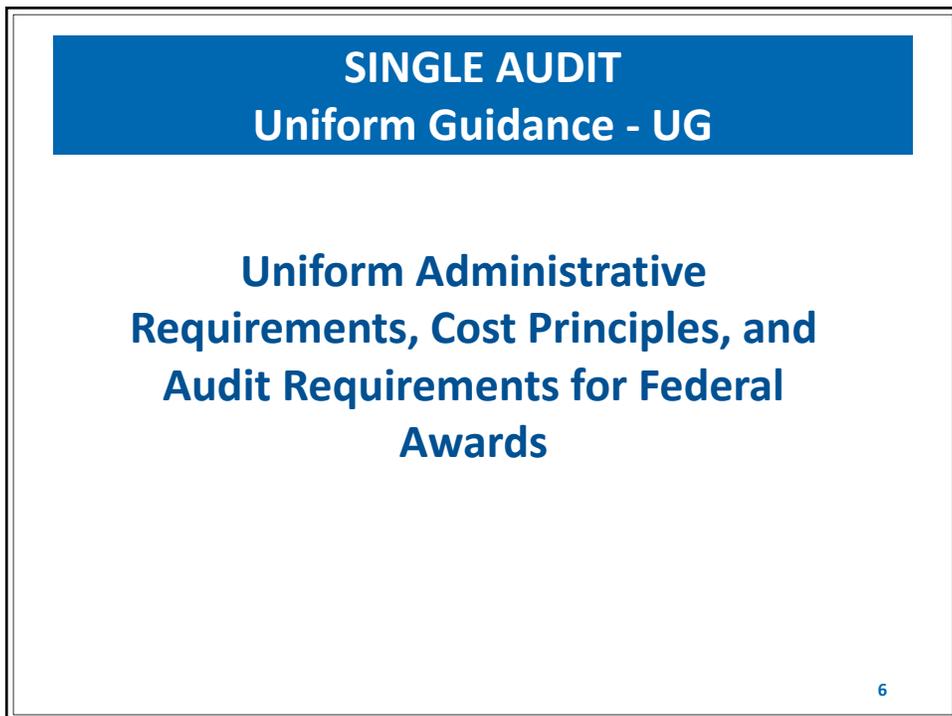


Uniform Guidance Overview

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**SINGLE AUDIT**  
**Uniform Guidance - UG**

**Uniform Administrative  
Requirements, Cost Principles, and  
Audit Requirements for Federal  
Awards**

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This slide has a blue header bar at the top containing the text "SINGLE AUDIT" and "Uniform Guidance - UG" in white. Below the header, the main title "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" is centered in blue. The slide number "6" is in the bottom right corner.

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## Access Information – Uniform Guidance

### ▶ How to Access the UG

- [Electronic Code of Federal Regulations \(e-CFR\)](#) version
- PDF version of the [Federal Register Notice](#) in its entirety
- <http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf>

### ▶ How to access COFAR documents and Webcasts and FAQs

- Visit <https://cfo.gov/COFAR/> for resources

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## Uniform Guidance for Federal Awards Contents

- ▶ **Subpart A - Acronyms and Definitions 200.xx**
- ▶ **Subpart B - General Provisions 200.1xx**
- ▶ **Subpart C - Pre-Federal Award Requirements and Contents of Federal Award 200.2xx**
- ▶ **Subpart D – Post-Federal Award Requirements 200.3xx**
- ▶ **Subpart E - Cost Principles 200.4xx**
- ▶ **Subpart F - Audit Requirements 200.5xx**
- ▶ **Appendix I - Notice of Funding Opportunity**
- ▶ **Appendix II - Contract provisions for non-Federal entity contracts under Federal awards**
- ▶ **Appendix III - Indirect (F&A) costs identification and assignment, and rate determination for Institutions of Higher Education (IHEs)**

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## Uniform Guidance for Federal Awards Contents

- ▶ Appendix IV - Indirect (F&A) costs identification and assignment, and rate determination for nonprofit organizations
- ▶ Appendix V - State/local government and Indian tribe-wide central service cost allocation plans
- ▶ Appendix VI - Public assistance cost allocation plans
- ▶ Appendix VII - State and local government and Indian tribe indirect cost proposals
- ▶ Appendix VIII - Nonprofit organizations exempt from Cost Principles
- ▶ Appendix IX - Hospital Cost Principles
- ▶ Appendix X - Data Collection Form
- ▶ Appendix XI - Compliance Supplement

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## What Rules Do I Follow?

Small grants

- ▶ Part D - Post Federal Award Requirements 200.3xx
- ▶ Part E – Cost Principles 200.4xx
- ▶ Appendix for cost allocation

\$750,000 or more  
of grants

- ▶ Part D - Post Federal Award Requirements 200.3xx
- ▶ Part E – Cost Principles 200.4xx
- ▶ Part F – Audit Requirements 200.5xx
- ▶ Appendix for cost allocation and Data Collection Form

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**Administrative Rules**

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**Part 200 – Contents of Uniform Guidance  
for Federal Awards**

▶ **Subpart D – Post-Federal Award Requirements**

- Financial management
- **Internal controls**
- Bonds
- Payment
- Cost sharing and matching
- Program income
- Revision of budget and program plans
- Property standards
- **Procurement standards**
- Performance and financial monitoring and reporting
- **Subrecipient monitoring and management**
- Record retention and access
- Remedies for noncompliance
- Closeout

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## Internal Control

### ► Focus on controls - Internal Control Clarification – From COFAR FAQ III-4

#### § 200.303 Internal controls.

The **non-federal entity must: Establish and maintain effective internal control over the Federal award** that provides reasonable assurance that the non-federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. **These internal controls should be in compliance with** guidance in “Standards for Internal Control in the Federal Government” [Green Book] issued by the Comptroller General of the United States and the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (**COSO**).

**OMB has stated that the **should** is meant to be a “best practice” and not a presumptively mandatory requirement.**

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## Procurement

- States will follow the same policies and procedures they use for procurements from non-federal funds (i.e., state procurement statutes).
- Other non-federal entities will follow the five procurement methods outlined in the Guidance including small purchase procedures which are subject to the Simplified Acquisition Threshold, micro-purchases, sealed bids, competitive proposals, and noncompetitive proposals.

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## Important COFAR FAQ on Effective Date and Grace Period for Procurement

### ▶ Client must implement the procurement standards 3 full fiscal years after the effective date of the UG (i.e., 3 full fiscal years after December 26, 2014)

- A 12/31 year-end client has to implement procurement standards for its fiscal year beginning 1/1/18 (i.e., its 12/31/18 fiscal year-end)
- A 6/30 year-end client has to implement the UG procurement standards for its fiscal year beginning 7/1/18 (i.e., its 6/30/19 fiscal year-end)

**Source: 2 CFR 200.110(a) and COFAR FAQ .110-6**

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## Procurement

### ▶ Micro Purchases

- \$3,500 Aggregate - \$2,000 if it is for Construction and subject to Davis-Bacon Act
- There does not need to be quotations
- Equitable distribution among qualified vendors

### ▶ Small Purchases

- Simple and informal procurement methods
- Not more than the simplified acquisition threshold - currently \$150,000
- Price and rate quotations must be obtained from adequate number of qualified sources

### ▶ Sealed Bids

- Above simplified threshold – greater than \$150,000
- Preferred for construction projects
- Must be publicly advertised

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## Procurement

### ▶ Competitive Proposals

- Above simplified threshold – currently **\$150,000**
- More than one source for proposal
- Usually used for fixed fee or cost reimbursement
- A written method of evaluation and selection
- Award must go to “most advantageous” proposal

### ▶ Sole Source

- Must meet at least one of the criteria:
  - Single source availability
  - Public emergency
  - Written request has been made and approved by federal or PTE
  - Competition is determined to be inadequate

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## M-18-18

### ▶ M-18-18 Implementing Statutory Changes to the Micro-Purchase and the Simplified Acquisition Thresholds for Financial Assistance

- Dated June 20, 2018
- Micro-purchase threshold to \$10,000 for all recipients
- Simplified acquisition threshold to \$250,000 for all recipients

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## Subrecipient Monitoring and Management

- ▶ **Subrecipient versus contractor determination expanded and relocated to administrative requirements in sec. 200.330**
  - Criteria for determination basically unchanged
- ▶ **New requirements for Pass-Through Entities (PTEs) with regard to monitoring activities**
  - Much more detailed than guidance contained in *Compliance Supplement*
  - Includes a required risk assessment of subrecipients
- ▶ **New subaward requirements**

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## Subrecipient / Contractor Determination

- ▶ **A non-federal entity may concurrently receive federal awards as a:**
  - Recipient
  - Subrecipient
  - Contractor
- ▶ **PTE must make case-by-case determination whether each agreement it makes for the disbursement of federal program funds casts the party receiving the funds in the role of a:**
  - Subrecipient, or
  - Contractor

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## Requirements for PTEs – Section 200.331

- ▶ **Ensure that every subaward is clearly identified to the subrecipient as a subaward**
  - Provide certain subaward information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification
- ▶ **Evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring, based on provided criteria**

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## Requirements for PTEs – Section 200.331

- ▶ **Consider imposing specific subaward conditions upon a subrecipient, if appropriate**
  - Based on risk or prior history of failure to comply
  - Example conditions that may be added in section 200.207
- ▶ **Monitor activities of the subrecipient**
- ▶ **Other potential PTE monitoring tools depending on risk**
- ▶ **Verify that every subrecipient is audited as required by Subpart F**
- ▶ **Consider whether the results of subrecipient audits, on-site reviews, or other monitoring activity indicate conditions that necessitate adjustment to the PTE’s own records**
- ▶ **Consider taking enforcement action against noncompliant subrecipients as described in section 200.338**

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## Subrecipient Responsibilities

- ▶ **Non-federal entities must comply with requirements in Uniform Guidance for Federal Awards regardless of whether the non-federal entity is a recipient or subrecipient of a federal award.**
- ▶ **Uniform Guidance for Federal Awards is explicit on requirements for PTEs, but subrecipient responsibilities are scattered throughout the guidance and are not generally called out separately as a subrecipient requirement (i.e., refers instead to non-federal entity requirements)**

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## Cost Principles

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## Part 200 – Uniform Guidance for Federal Awards

### ▶ Subpart E - Cost Principles

- General provisions
- Basic considerations
- Collection of unallowable costs
- Adjustment of previously negotiated ICR containing unallowable costs
- **Direct and indirect costs**
- Special considerations for states, local governments, and Indian Tribes
- Special considerations for institutions of higher education
- **General provisions for selected items of costs**

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## Cost Principles – Allocable Costs – 200.405

### ▶ Direct cost allocation principles

- Cost benefits two or more projects in proportions that can be determined
- Should be allocated based on the proportional benefit
- May be allocated on any reasonable basis

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## Cost Principles – Direct Costs – 200.413

### ▶ Direct costs

- Identified specifically with final objective
- Salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs
- Costs are not also recovered as indirect costs
- Any direct cost of minor amount may be treated as an indirect cost

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## Cost Principles – Indirect Costs – 200.414

### ▶ Indirect costs

- Requirements for development and submission of indirect (F&A) cost rate proposals and cost allocation plans are contained in Appendices III-VII

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## Cost Principles – Indirect Costs

- ▶ Federal agencies and pass-through entities will have to accept a non-federal entity's negotiated indirect cost rate
  - Unless a statute or regulation allows for an exception
- ▶ For non-federal entities who have never received a negotiated rate, **de minimis rate of 10% of modified total direct costs** may be used indefinitely

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## General Provisions for Selected Items of Cost

- ▶ 423 Alcoholic Beverages
- ▶ 434 Contributions and Donations
- ▶ 445 Goods and Services for Personal Use
- ▶ 455 Organization Costs
- ▶ 430 Compensation – personal services
- ▶ 431 Compensation – fringe benefits
- ▶ 436 Depreciation
- ▶ 453 Materials and supplies costs, including costs of computing devices

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**Audits under  
Uniform Guidance-  
Auditee Responsibilities**

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**Auditor Selection 2CFR 200.509**

- ▶ **In procuring audit services, auditees must follow the applicable procurement standards in Subpart D of UG**
- ▶ **Obtain high-quality audits**
- ▶ **Must request copy of the peer review**
- ▶ **Make an effort to use small businesses, minority, and WBE**

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## Financial Statements 2CFR 200.510

- ▶ Prepare the financial statements
- ▶ Prepare the schedule of expenditures of federal awards (SEFA)

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## Audit Findings Follow-Up 2CFR 200.511

- ▶ Responsible for follow-up and corrective action
  - Summary Schedule of Prior Audit Findings
  - Corrective Action Plan

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## Report Submission 2CFR 200.512

- ▶ **Data Collection Form to Federal Audit Clearinghouse**
  - Form SF-SAC
  - Due earlier of 30 days after receipt or nine months from end of audit period
  - <https://harvester.census.gov/facweb/>



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## The Auditor

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**Contents**

**Topic 1: The Audit**  
**Topic 2: The Compliance Supplement**  
**Topic 3: 2018 Yellow Book**  
**Topic 4: 2019 Data Collection Form**

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**The Audit**

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## The Goal in an Audit

- ▶ Give an in-relation opinion on the SEFA
- ▶ Determine Major Program(s)
- ▶ Test the Major Program (s)
- ▶ Report on the results of testing
  - Give an opinion on compliance
  - Give a report on internal control

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## Compliance – Auditor Responsibility (§ 200.514 (d) (1), (3) & (4))

- ▶ **Must determine whether auditee complied**
  - With federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs
- ▶ **Must determine the current compliance requirements and modify the audit procedures accordingly**
  - For the compliance requirements contained in the *Compliance Supplement*, an audit of these compliance requirements will meet the requirements of UG
- ▶ **Compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support opinion on compliance**
- ▶ **Testing compliance categories but opining on the Program**

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## Determining Direct and Material Compliance Requirements

- ▶ **Do auditors test all applicable compliance requirements?**
  - No; only test compliance requirements that could have a “direct and material effect”
- ▶ **Should an auditee comply with all applicable compliance requirements?**
  - Yes!

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## Internal Control – Auditee Responsibility (§200.303)

- ▶ **The non-federal entity must establish and maintain effective internal control over the federal award** that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.
- ▶ **Internal controls should be in compliance with guidance in:**
  - “Standards for Internal Control in the Federal Government” [Green Book] issued by the Comptroller General of the United States, and
  - the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- ▶ **Use of “should” in Uniform Guidance indicates a “best practice” and NOT a requirement**

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## Internal Control – Auditor Responsibility (§ 200.514(c)(2))

- ▶ Auditors must perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a **low assessed level of control risk** of noncompliance for major programs.
- ▶ Plan testing of internal control over the relevant compliance requirements for each major program
- ▶ Perform testing of internal control as planned
- ▶ Report on internal control over compliance

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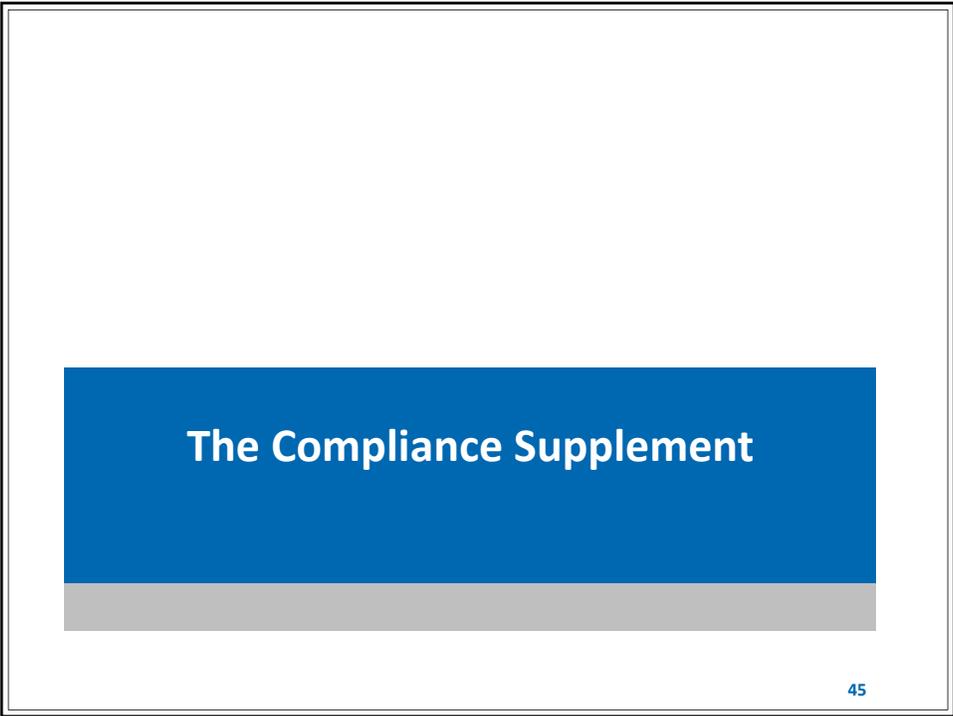
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## Internal Control Over Compliance - Process vs. Control

- ▶ **Processes**
  - Procedures that originate, transfer, or change data
  - Can introduce errors
- ▶ **Controls**
  - Procedures designed to prevent, detect, and correct errors resulting from processing of accounting information
  - Cannot generate errors

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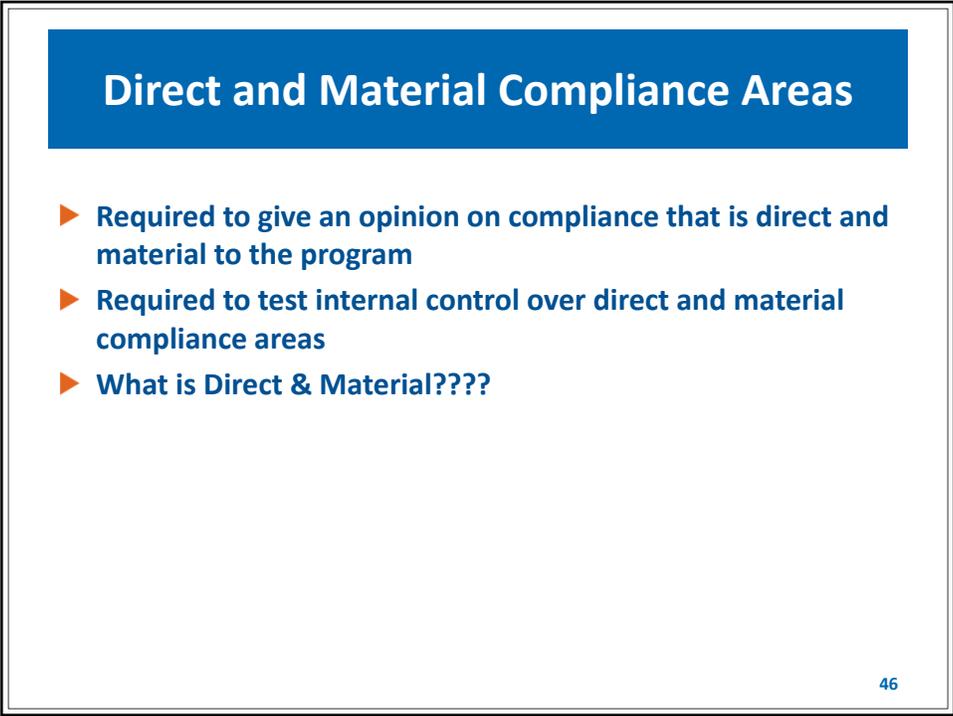
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The Compliance Supplement

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**Direct and Material Compliance Areas**

- ▶ Required to give an opinion on compliance that is direct and material to the program
- ▶ Required to test internal control over direct and material compliance areas
- ▶ What is Direct & Material????

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## Direct and Material Compliance Areas

### Program Expenditure Summary:

Payroll	\$ _____
Benefits	_____
Other than Personal Services (OTPS)	_____
Equipment	_____
Beneficiary Payments	_____
Loan Payments	_____
Subrecipient Payments	_____
Indirect Costs	_____
Total	\$ _____

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## Purpose and Use of the OMB *Compliance Supplement*

- ▶ **OMB *Compliance Supplement* issued annually**
- ▶ **Identifies the existing important compliance requirements**
- ▶ **Assists auditors to understand federal program objectives, procedures, and requirements**
- ▶ **Provides audit objectives and audit procedures for determining compliance**

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## 2019 Compliance Supplement

- ▶ **Was issued** \_\_\_\_\_
- ▶ **Key changes**
  - New 6-requirement mandate
  - Procurement
  - Programmatic changes in Parts 4 and 5
  - Revamped Part 6
  - Appendix VII changes to address procurement and audit sampling reminders
- ▶ **Possible changes to audit opinion**

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## 2019 Compliance Supplement – 6 Requirement Mandate

- ▶ **6-Requirement Mandate**
  - OLD
    - Y = Requirement applies to the program
    - N = Requirement normally does not apply
  - NEW
    - Y = Requirement subject to audit for the program
    - N = Requirement not subject to audit for the program

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## Compliance

The Client must comply in all areas



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## Using the Compliance Supplement

- ▶ Auditors need to use all parts (2, 3, 4, 5, 6, and 7) for a correct single audit
  - 2: Matrix of Compliance Requirements
  - 3: Compliance Requirements
  - 4: Agency Program Requirements
  - 5: Clusters of Programs
  - 6: Internal Control
  - 7: Guidance for Auditing Programs not Included in the Compliance Supplement

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## Using the Compliance Supplement

### ▶ Part 2: Matrix of Compliance Requirements

- Part 2 indicates which compliance requirements are selected by agency to be audited
- Auditor determines actual applicability
  - Discuss program with appropriate members of management
  - Possibly review contracts and grants
- Auditor then determines which compliance requirements are **direct and material**

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## Using the Compliance Supplement

### ▶ Part 3: Compliance Requirements

- Generic compliance requirement information
- Generic audit procedures

### ▶ Tips

- Refrain from using the *Compliance Supplement* as a checklist
- Understand the various programs to determine whether modifications to the audit approach are necessary

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## Using the Compliance Supplement

- ▶ **Parts 4 (Agency Program Requirements) and 5 (Clusters of Programs)**
  - Include program-specific compliance regulation information
  - Limited program specific audit procedures
- ▶ **Tips**
  - Parts 4 and 5 cannot be used without **parts 2 and 3**
  - Part 4 cannot be your audit program

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## Using the Compliance Supplement

- ▶ **Part 6: Internal Control**
  - UG § 200.303 states that a non-federal entity must “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award”
  - COSO and “Standards for Internal Control in the Federal Government” (Green Book) are UG best practice

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## Using the Compliance Supplement

- ▶ **Part 7: Guidance for Auditing Programs Not Included**
  - You could have more than 6 Direct and Material

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## Using the Compliance Supplement

- ▶ **Key Appendix**
  - Appendix V lists changes made from previous year – Review in detail
  - Appendix VII provides Other Audit Advisories – Review in detail (should discuss M-18-18)

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## 12 Compliance Requirements in Part 2

- ▶ A- Activities Allowed or Unallowed
- ▶ B - Allowable Costs/Cost Principles
- ▶ C- Cash Management
- ▶ E - Eligibility
- ▶ F - Equipment and Real Property Management
- ▶ G - Matching, Level of Effort, and Earmarking
- ▶ H - Period of Performance
- ▶ I - Procurement and Suspension and Debarment
- ▶ J - Program Income
- ▶ L - Reporting
- ▶ M - Subrecipient Monitoring
- ▶ N - Special Tests and Provisions

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## Determine Applicability Using Part 2 Matrix

June 2019

Matrix of Compliance Requirements

DRAFT

Program Number	A Activities Allowed or Unallowed	B Allowable Costs/Cost Principles	C Cash Management	E Eligibility	F Equipment Real Property Management	G Matching, Level of Effort, Earmarking	H Period of Performance	I Procurement Suspension & Debarment	J Program Income	L Reporting	M Subrecipient Monitoring	N Special Tests and Provisions
14.267	N	N	N	N	Y	Y	Y	Y	Y	N	N	Y
14.269/14.272	Y	Y	N	N	N	Y	Y	N	Y	Y	N	Y
14.850	Y	Y	N	Y	N	N	Y	N	N	N	N	Y
14.862	Y	Y	Y	N	Y	N	N	Y	N	Y	N	Y
14.866/14.589	Y	Y	Y	N	N	Y	Y	Y	Y	N	N	N
14.867	Y	Y	N	Y	N	N	N	Y	N	Y	N	Y

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## A Note About Part 2 and Applicability

- ▶ **“Y” may appear in matrix, even though a requirement may not apply to a particular entity**
  - Entity may not have activity subject to the compliance requirement; or
  - Activity could not have a material effect on major program
- ▶ **Auditor should exercise professional judgment when determining which compliance requirements marked with a “Y” need to be tested at a particular entity**
- ▶ **Documentation is key if overriding a “Y”**

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## Importance of Documentation Supporting Assessments

- ▶ **Documentation of “applicable” and “direct and material” determinations is critical**
  - If auditor determines a “Y” in Part 2 matrix is not applicable to an auditee, N/A not enough
  - If auditor determines an applicable compliance requirement is not direct and material, “Not D&M” is not enough

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## CAUTION – Suspension and Debarment

- ▶ **Procurement and Suspension and Debarment**
  - Procurement may not be direct and material
  - Suspension and Debarment may be direct and material
- ▶ **Suspension and Debarment - testing**
  - Contracts for goods and services that are equal to/ or exceed \$25,000
  - Subrecipients irrespective of award amounts

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## 2018 Yellow Book



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## Emphasis Area: When Does the Yellow Book Apply?

- ▶ When required (for example, by law, regulation, contract, grant agreement, and policy)
- ▶ Usually participation in federal programs (such as grants or loan programs) over a certain dollar threshold triggers a Yellow Book requirement (and related compliance audit)
- ▶ When not required, auditees may voluntarily engage auditors to apply the YB on the engagement

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## When Does the Yellow Book Apply?

Audit Requirement	GAGAS Applicable?
Single audit	YES
HUD Consolidated Audit Guide	YES
U.S. Dept. of Education Proprietary Schools Audit Guide	YES
F/S audit of GASB reporting entity	Maybe
Agreed-upon procedures engagement on grant compliance	Maybe

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**It's a Piece of Cake (Layer Cake)**



And sometimes a compliance audit standard  
Yellow Book requirements  
GAAS requirements

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**Emphasis Area: What do *Government Auditing Standards* Require Above AICPA (GAAS) Requirements?**



AICPA GAAS

GAO GAGAS

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## Additional YB Requirements for Financial Statement Audits

- ▶ Ethical principles, independence, and professional judgment
- ▶ Competency and CPE
- ▶ Tests of compliance and other matters
- ▶ Reporting and findings

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## Accessing the 2018 Yellow Book

- ▶ The 2018 Yellow Book can be accessed on the [GAO Yellow Book Web page](#); or you can access the [PDF file directly](#)
- ▶ The [GAO Yellow Book Web page](#) also includes:
  - Podcast on the 2018 Yellow Book
  - GAO contact information

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## Effective Date

- ▶ For financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020
- ▶ For performance audits beginning on or after July 1, 2019
- ▶ The 2018 YB supersedes:
  - GAO 2011 YB
  - GAO 2005 GAO CPE Guidance
  - GAO 2014 GAO peer review ratings guidance

Early implementation is not permitted!

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## Summary of Key Change Areas From 2011 YB

- ▶ New format and organization
- ▶ Independence requirements related to nonaudit services
- ▶ CPE
- ▶ Finding guidance
- ▶ Waste and abuse
- ▶ Standards for reviews of financial statements
- ▶ Performance audits
- ▶ Other

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## New Format and Organization

- ▶ **Presented in a “clarified” format**
  - Requirements appear in boxes
  - Application guidance included after each boxed requirement
- ▶ **Chapters are reorganized and realigned**
  - Certain topic areas that had previously been combined are now separated out, resulting in 9 chapters
- ▶ **Supplemental guidance in Appendices from the 2011 YB is either removed or incorporated into 2018 YB**

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## Example of “Clarified” Format

### Professional Judgment

#### Requirement: Professional Judgment

**3.109** Auditors must use professional judgment in planning and conducting the engagement and in reporting the results.

#### Application Guidance: Professional Judgment

**3.110** Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Attributes of professional skepticism include a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Professional skepticism includes being alert to, for example, evidence that contradicts other evidence obtained or information that brings into question the reliability of documents or responses to inquiries to be used as evidence. Further, it includes a mindset in which auditors assume that management is neither dishonest nor of unquestioned honesty. Auditors may accept records and documents as genuine unless they have reason to believe the contrary. Auditors may consider documenting procedures undertaken to support their application of professional skepticism in highly judgmental or subjective areas under audit.

**3.111** Using the auditor’s professional knowledge, skills, and abilities, in good faith and with integrity, to diligently gather information and

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GAO-18-568G Government Auditing Standards

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## Auditor Responsibility Under the Yellow Book

- ▶ **Unconditional requirements** – auditor “must” comply with where relevant; identified with use of “must”
- ▶ **Presumptively mandatory requirements** – auditor must comply with except in rare circumstances; identified with use of “should”
- ▶ If depart from, should perform alternative procedures and document justification
- ▶ **Application guidance** – provides further explanation of the requirements and guidance for applying them; identified with “may,” “might,” and “could.”

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## Independence Changes

- ▶ Most significant changes relate to performance of nonaudit services that include preparing accounting records and financial statements
- ▶ 2018 YB retains much of its other independence requirements and guidance

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## Ethical Principles, Independence, and Professional Judgment (Chapter 3)

- ▶ Requirements in chapter 3 are intended to be followed in conjunction with all other applicable GAGAS requirements
- ▶ Ethical principles provide the foundation, discipline, and structure, as well as the environment, that influence the application of GAGAS
- ▶ Requirements and application guidance provided for both independence and the auditor's use of professional judgment

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## Yellow Book Independence

- ▶ YB uses a conceptual framework approach
- ▶ GAO provides a list of specifically prohibited nonaudit services; it does not provide a list of permitted nonaudit services or relationships

**CAUTION!** All independence considerations, and documentation thereof, need to run through the YB independence conceptual framework!

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## Independence Threats Related to Preparing Accounting Records and F/S

- ▶ 2018 YB indicates that nonaudit services in this area fall into three categories:

Those that automatically impair independence

Those that are significant threats

Those that are threats

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## Activities that Impair Independence - Preparing Accounting Records and F/S

- ▶ Determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;
- ▶ Authorizing or approving the entity's transactions; and
- ▶ Preparing or making changes to source documents without management approval

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## Activities that are Significant Threats - Preparing Accounting Records and F/S

- ▶ Auditors should conclude that preparing F/S in their entirety from a client-provided trial balance or underlying accounting records creates significant threats

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## Activities That are Threats - Preparing Accounting Records and F/S

- ▶ Any other services related to preparing accounting records and F/S create a threat whose evaluation for significance must be documented
  - Recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger;
  - Preparing certain line items or sections of the F/S based on information in the trial balance
  - Posting entries that an audited entity's management has approved to the entity's trial balance; and
  - Preparing account reconciliations that identify reconciling items for the audited entity management's evaluation

See Yellow Book paragraph 3.89

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## New Application Guidance on Clerical Assistance

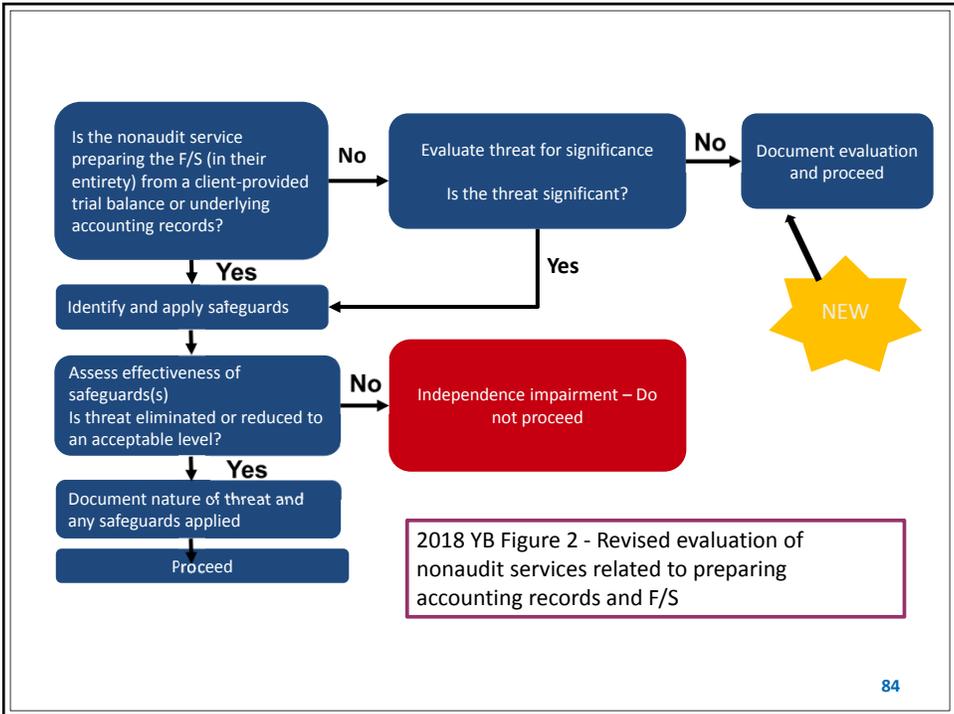
- ▶ Providing clerical assistance, such as typing, formatting, printing, and binding F/S, is unlikely to be a significant threat.



- ▶ It is still a threat

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## New SKE Application Guidance – YB paragraph 3.79

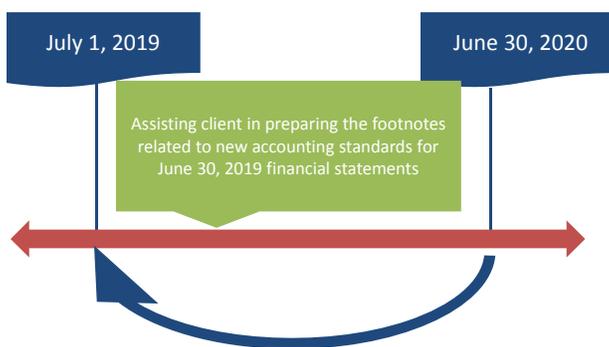
- ▶ **Management not required to possess expertise needed to perform or re-perform the services.**
- ▶ **Indicators of management’s ability to effectively oversee the nonaudit service include management’s ability to:**
  - determine the reasonableness of the results of the nonaudit service provided
  - recognize a material error, omission, or misstatement in the results of the nonaudit services provided.

**YB REQUIREMENT (YB 3.73):**  
Auditors should determine that the audited entity has designated an individual who possesses suitable SKE and that understands the services to be provided sufficiently to oversee them.

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## CAUTION! Consider Independence Period!



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## Yellow Book Competence and CPE

- ▶ **Competence is derived from education and experience**
- ▶ **Assigned staff must collectively possess the competence needed to address engagement objectives, perform work in accordance with GAGAS and for their assigned roles**
- ▶ **Indicators of competence:**
  - Technical knowledge and skills in areas such as GAGAS, standards, regulations, techniques, tools, and guidance
  - Competence for assigned roles (e.g., supervisory auditor, partner) – this is new in 2018 YB

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## CPE Requirements

- ▶ **2018 YB does not include a 4-hour GAGAS qualification CPE requirement that had been proposed in the ED**
  - Instead, added application guidance related to obtaining GAGAS-specific CPE each time a new Yellow Book revision is issued

**NEW APPLICATION GUIDANCE: Obtaining CPE specifically on GAGAS, particularly during years in which there are revisions to the standards, may assist auditors in maintaining the competence necessary to conduct GAGAS engagements. (YB 4.19)**

- Incorporated relevant sections of previous separate CPE guidance document and tweaked a few other sections

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## Yellow Book Competence and CPE

- ▶ **Auditors who plan, direct, perform, or report on a YB engagement should maintain competence by completing at least 80 hours of CPE in every 2-year period as follows:**
  - **24 hours of CPE** in subject matter directly related to:
    - the government environment,
    - government auditing, or
    - the specific or unique environment in which the audited entity operates
  - **56 hours of CPE** in subject matter that directly enhance the auditor's professional expertise to conduct engagements

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## Falsehoods Heard in the Hallways....

*"I'm on the financial statement audit team for my client and not the compliance audit team doing the single audit. Luckily, I don't have to worry about all of that Yellow Book CPE stuff ...."*

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## Other Competency and CPE “Tweaks”

- ▶ **More emphasis that audit organizations have responsibility for:**
  - Assigning competent auditors
  - Ensuring collective competence of auditors conducting the engagement before beginning work on the engagement
  - Having processes so that workforce has essential knowledge, skills and abilities
  - Maintaining documentation of each auditor’s CPE
  - New exception to the YB CPE hour requirement for non-supervisory auditors charging less than 40 hours annually to YB audits (YB paragraph 4.26)



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## Qualifications and Competency of Specialist

- ▶ **YB Paragraph 4.12: The engagement team should determine that specialists assisting the engagement team on a GAGAS engagement are qualified and competent in their areas of specialization.**
- ▶ **To understand this requirement for specialists, you need to understand the definitions of the following:**
  - Auditor
  - Engagement Team
  - Specialist

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## YB Auditor Definitions

- ▶ **Auditor**: An individual assigned to planning, directing, performing engagement procedures or reporting on GAGAS engagements (including work on audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors under GAGAS. (YB paragraph 1.27(f))

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## YB Engagement Team and Specialist Definitions

- ▶ **Engagement team (or audit team)**: Auditors assigned to planning, directing, performing engagement procedures or reporting on GAGAS engagements. (YB paragraph 1.27(i))
- ▶ **Specialist**: An individual or organization possessing special skill or knowledge in a particular field other than accounting or auditing that assists auditors in conducting engagements. A specialist may be either an internal specialist or an external specialist. (YB paragraph 1.27(p))

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## Other Specialist Definitional Application Guidance

- ▶ **Some engagements may necessitate the use of specialized techniques or methods that call for the skills of specialists. Specialists do not include individuals with special skill or knowledge related to specialized areas within the field of accounting or auditing, such as income taxation and information technology. Such individuals are considered auditors. (YB paragraph 4.13)**

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## Yellow Book Tests of Compliance and Other Matters

- ▶ **AICPA GAAS**
  - Test provisions of laws and regulations have a direct and material effect on the financial statements and disclosures
  - Test provisions of laws and regulations that do not have a direct and material effect but compliance with which may be fundamental to operating aspects of the entity, the entity's ability to continue operating, or for the entity to avoid material penalties
- ▶ **GAGAS incremental requirements**
  - States that auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include consideration of noncompliance with provisions of contracts and grant agreements
  - **Under 2011 YB only:** consideration of abuse (when we become aware)

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## Findings – New Requirement and Application Guidance for Developing “Cause” Element

- ▶ **New Requirement:** Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the cause element (YB paragraphs 6.18 and 7.20)
  - ▶ **New Application Guidance:** Considering internal control in the context of a comprehensive internal control framework, such as Standards for Internal Control in the Federal Government or Internal Control—Integrated Framework, can help auditors to determine whether underlying internal control deficiencies exist as the root cause of findings. Identifying these deficiencies can help provide the basis for developing meaningful recommendations for corrective actions. (YB paragraphs 6.30 and 7.32)
- ▶ Relates to financial audits, attestation engagements, and reviews

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## Waste and Abuse

- ▶ **2011 YB includes a “trip across” requirement to report abuse when an auditor becomes aware of it**
- ▶ **2018 YB transitions the discussion of abuse, along with a new concept of waste, to application guidance related to findings**
- ▶ **New Application Guidance:**
  - Evaluating internal control in a government environment may also include internal control deficiencies that result in waste or abuse.
  - Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in financial audits.
  - However, auditors may consider whether and how to communicate such matters if they become aware of them.
  - Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.

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## Waste Definition and Examples

- ▶ **Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.**
- ▶ **The following are examples of waste, depending on the facts and circumstances:**
  - Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.
  - Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.
  - Abuse definitions and related examples in 2018 YB is consistent with the 2011 YB

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## Standards for Reviews of Financial Statements

- ▶ **2018 YB adds requirements and guidance for reviews of financial statements in accordance with GAGAS**
- ▶ **Incorporates by reference SSARS No 21, Section 90, Review of Financial Statements**
- ▶ **Adds additional requirements in following areas:**
  - Licensing and certification
  - Noncompliance
  - Reporting compliance with GAGAS
  - Distribution of reports

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## Performance Audits: Management Assertion Clarification

- ▶ 2018 YB now has an explicit statement that assertions are not required for performance audits

**“In performance audits conducted in accordance with GAGAS, auditors are the party who measures or evaluates the subject matter of the engagement and who presents the resulting information as part of, or accompanying, the audit report.**

**Therefore, GAGAS does not require auditors to obtain management assertions with respect to the subject matter when conducting a performance audit.”**

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## Other Changes of Note - Minor Wording Changes Throughout

- ▶ The term “audit” was replaced with “engagement”
- ▶ The term “performance” was replaced with “conducting”
- ▶ Other minor wording tweaks; for example:
  - The 2011 YB paragraph 3.65 said “. . . considering any threats to independence,”
  - The 2018 YB paragraph 3.114 revised that section to “. . . identifying and evaluating any threats to independence,”

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## Other Changes of Note

### Glossary

Glossary added at  
end of 2018 Yellow  
Book

The following terms are provided to assist in clarifying the *Government Auditing Standards*. The most relevant paragraph numbers are provided for reference. When terminology differs from that used at an organization subject to generally accepted government auditing standards (GAGAS), auditors use professional judgment to determine if there is an equivalent term.

**Abuse:** Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. (paragraphs 6.23, 7.25, and 8.122)

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## Other Changes of Note – Reporting

- ▶ **The Auditors should make the report on internal control and compliance available to users in the same manner as the financial audit report (if separate reports are used)**
- ▶ **The YB report relates only to the most recent reporting period included, when comparative F/S are present**

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## Yellow Book Findings to Report

Source: Table 4-1, AICPA Audit Guide, GAS and Uniform Guidance Audits	Report in Yellow Book Report	Comm. in Writing	Use Judgment
<b>Deficiencies in internal control over financial reporting:</b>			
Significant deficiencies and material weaknesses	X		
Other deficiencies in IC that are not SDs or MWs			X
<b>Fraud and noncompliance with provisions of laws or regulations:</b>			
Has a material effect on the FS and any other instances that warrant the attention of TCWG	X		
Does not warrant the attention of TCWG			X
<b>Noncompliance with provisions of contracts and grant agreements:</b>			
Has a material effect on the FS or other financial data significant to the audit objectives	X		
Has an effect on the FS that is less than material but warrants the attention of TCWG		X	
Does not warrant the attention of TCWG			X

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## Yellow Book – Format of Findings

- ▶ **Elements of an audit finding (2018 YB paragraphs 6.25 – 6.28)**
  - The Criteria—What should we have seen?
  - Condition—What did we see?
  - Cause—Why did we see what we saw?
  - Effect or potential effect—What is the result of what we saw?
  - Views of responsible officials (2018 YB paragraphs 6.57 -6.60)
  - Recommendations—How do we not see it again? (2018 YB paragraph 6.52 states that the auditors may include recommendations if they sufficiently develop the elements of a finding)
  - Context/perspective—Significance or importance of what we saw (2018 YB paragraph 6.51)
    - There may be additional elements for reporting findings that are required by other requirements (e.g., Uniform Guidance)

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## Yellow Book Findings to Report

- ▶ **Auditors need to go the extra mile with GAGAS**
  - Investigate enough to “tell the story”
  - Be able to report the required elements of a finding
  - Keep in mind what users will need to know to be able to track correction and possibly take other action



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## AICPA Illustrative Yellow Book Reports

- ▶ **The AICPA Audit Guide, *Government Auditing Standards and Single Audits*, contains numerous illustrations including:**
  - The Auditor’s Report on the Financial Statements (referring to GAGAS)
  - The Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶ **The GAQC has posted excerpts of these reports on the GAQC Web site and have left them open**
- ▶ **The Other YB report illustrations may appear in federal agency audit guides – use with caution!**

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## Falsehoods Heard In the Hallways...

*“We just finished this audit and issued our GAAS audit report, just like always. Now the client tells me they actually were supposed to get the audit done under Government Auditing Standards. They are practically the same thing - can't I just change the terminology in the report?”*

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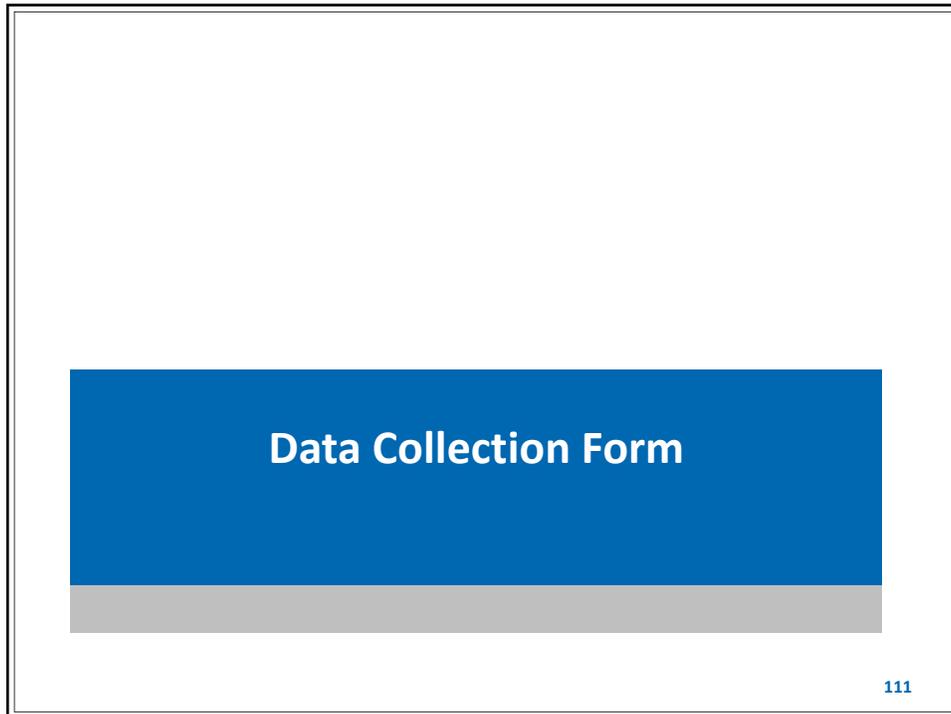
109

## Where to Find the Yellow Book

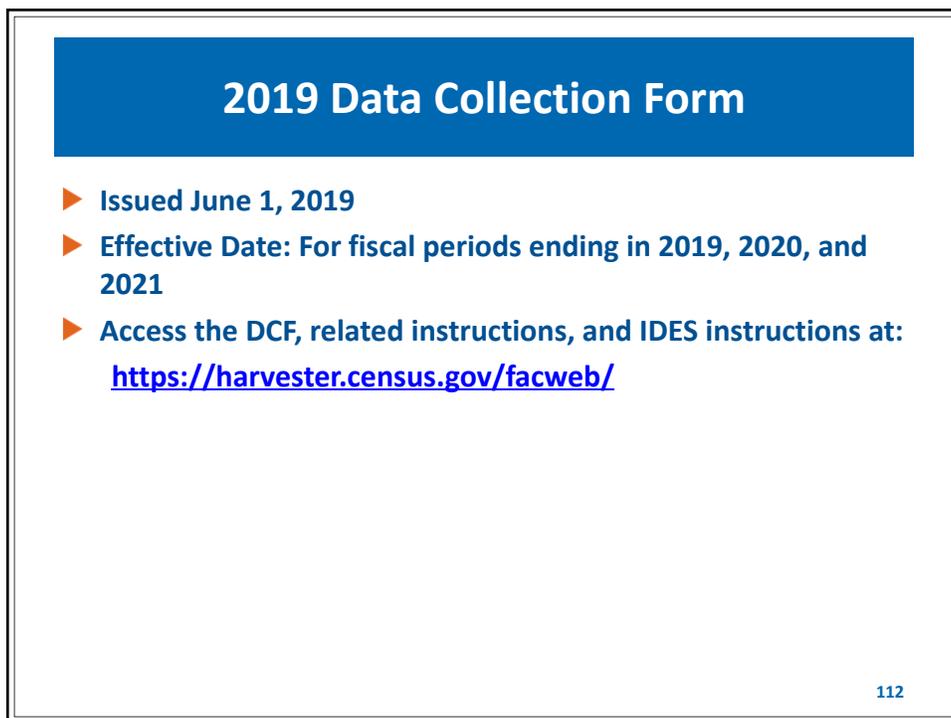
- ▶ Available on GAO's website at [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook) (both 2018 and 2011 versions available)
- ▶ For technical assistance, contact GAO hotline at:
  - [yellowbook@gao.gov](mailto:yellowbook@gao.gov)
  - Call (202) 512-9535

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## 2019 Form Changes

- ▶ **System edit check added for auditee EIN**
- ▶ **Cluster drop-down box**
  - N/A
  - Other Cluster – missing from drop-down box
  - Named clusters
- ▶ **New requirements for the Form include:**
  - Notes to the SEFA
  - Text of audit findings
  - Text of CAP

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## 2019 Form Changes – Notes to SEFA

- ▶ **Notes to SEFA**
  - No limit to number of notes
  - Enter note titles
  - Automatic numbering of additional notes
    - ▶ **If additional notes in the reporting package have an identified note number, enter that note number in note title field**

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## 2019 Form Changes – Additional Notes

- ▶ **What about additional Notes**
  - Summary of Significant Accounting Policies
  - Whether de minimis cost rate elected
  - Additional notes
- ▶ **Text limit for notes is 4,000 characters**
- ▶ **If charts or tables within actual note enter: “See the notes to the SEFA for chart/table**
- ▶ **Loan/loan guarantee – auto generate**

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## 2019 Form Changes – Audit Findings

- ▶ **DCF will now collect the text of audit findings so that federal agencies can more easily perform audit resolution**
  - Only federal award findings
  - Text limit 30,000
  - Each unique audit finding reference number will auto-generate based on information in Part III, Item 4(e)

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## 2019 Form Changes – Audit Findings

- ▶ **Two options for entering text of the findings**
  - Manually for each individual finding
  - Worksheet approach – download, complete, upload
- ▶ **If chart/tables enter: “See the Schedule of Findings and Questioned Costs for chart/table”**
- ▶ **Include any header information**

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## 2019 Form Changes – Audit Findings

- ▶ **Certain formatting will not transfer over**
  - Bold, italics, and underline
- ▶ **Cautionary warning will be provided by the system to inform that text input may not convey full meaning and that users should refer to the reporting package to view text as intended**

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## 2019 Form Changes – CAP

- ▶ **DCF will now collect the text of the CAP**
- ▶ **Text limit is 10,000**
- ▶ **Each unique audit finding reference number will auto-generate**
- ▶ **Two options for entering text of the findings**
  - Manually for each individual finding
  - Worksheet approach – download, complete, upload

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## 2019 Form Changes – Auditor Statement

- ▶ **Auditor statement format revised**
- ▶ **Check the box next to each item to signify you agree**

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## 2019 Form Changes – Resubmissions

- ▶ Reason for resubmission of a DCF or reporting package change must be provided

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## Contact the FAC

### Technical Support

866-306-8779

[GOVS.FAC.IDES@Census.gov](mailto:GOVS.FAC.IDES@Census.gov)

### Other Inquiries

800-253-0696

[ERD.FAC@Census.gov](mailto:ERD.FAC@Census.gov)

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## Questions? Contact Me!



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