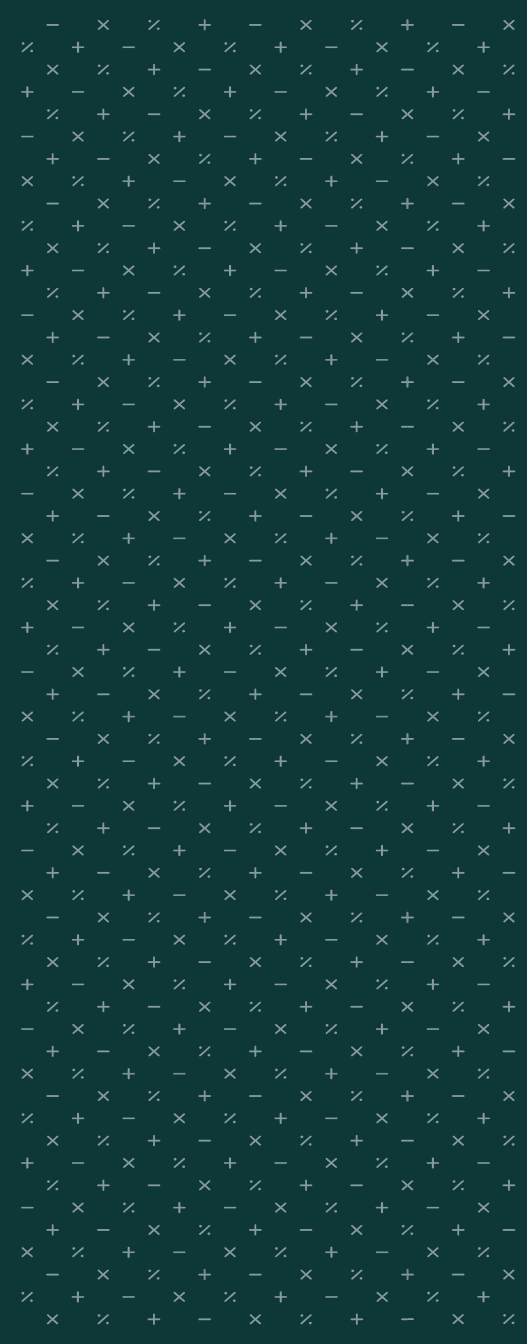




# Yellow Book changes and Single Audit Focus Areas

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# Agenda

## Yellow Book Changes

- CPE Changes
- Independence Changes

## Single Audit Focus Areas

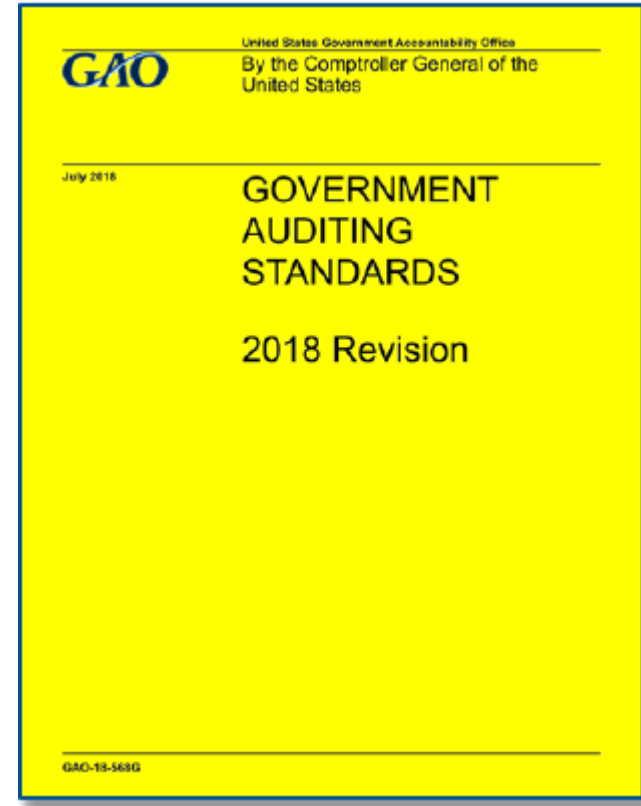
- Documentation
- Procurement
- Subrecipient Monitoring
- Indirect Costs
- Audit findings:
  - Classification
  - Severity

Questions?

# Effective Dates

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- Financial audits and attestation engagements for periods beginning on or after June 30, 2019
- Performance audit beginning on or after July 1, 2019



# When Does the Yellow Book Apply?

<b>Audit Requirement</b>	<b>GAGAS applicable?</b>
Single Audit	Yes
HUD Guide Audit	Yes
FS audit of for-profit recipient of awards from US Dept. of Energy needing compliance audit	No
Audit under U.S. Dept. of Education Foreign Schools Guide	Yes
Financial statement audit of GASB reporting entity	Maybe
Agreed upon procedures on grant compliance	Maybe



# Summary of Key Changes from 2011 Revision

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- New Format and Organization
- Guidance for CPE requirements
- Definition of waste
- Internal Control
- Specific independence threats related to preparing the financial statements
- Performance audits
- Other-QC/Per review requirements



# Independence Threats

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¶3.87... the following services... **IMPAIR** independence

- a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;
- b. authorizing or approving the entity's transactions; and
- c. Preparing or making change to source documents without management approval



# Independence Threats

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¶3.88 ...preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records **creates SIGNIFICANT threats...**

¶ 3.95 Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat.

(application guidance)



# Independence Threats

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(Paraphrase of par. 3.89 and 3.90) Any other services related to preparing accounting records and financial statements create a THREAT and the auditor needs to evaluate for significance and document that evaluation.





# Independence Threats

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## Examples:

- 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 financial statements 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.



# Independence Threats

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What does the IPA need to do?

Auditors should:

- Document the threats and safeguards applied to eliminate and reduce threats to an acceptable level

**or**

- Decline to perform the service



# Independence Threats

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¶ 3.79 A critical component of determining whether a threat to independence exists is consideration of management's ability to effectively oversee the nonaudit service to be provided.

...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 services provided and to recognize a material error, omission, or misstatement in the results of the nonaudit services provided.

**SKE**



# CPE Changes

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- Retained existing CPE requirements and added application guidance
- Engagement team should determine that specialists are qualified and competent in their areas of specialization.
- Specialists are not subject to Yellow Book CPE requirements

**NOTE:** IT auditors are generally considered members of the audit team rather than specialists and thus are subject to the CPE requirements



# Quality Control

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Content related to quality control is significantly expanded.

- Client and engagement acceptance
- Engagement performance, documentation, review and supervision of work performed, and reporting policies
- Expanded requirements for monitoring
- Annual written affirmation of compliance with independence policies and procedures



# Yellow Book Reminders

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Effective dates June 30, 2018 - will affect your current year audits and your current year independence evaluations.





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**The AICPA identified Single Audits as being a High Risk Area and have been designated an area of focus for Peer Review**



**Why is that?**



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**The AICPA did a study out of 87 Single Audits reviewed, 48% were considered nonconforming. They found IPA's that performed 1 single audit were more likely to be nonconforming than firms performing more than 2.**



**Over 50% was related to documentation**

# What Can The IPA Do?

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- Plan Properly
- Verify Independence - SKE
- Select the correct programs to Audit
- Consider Design of Internal Controls over Compliance
- Document



# What Can The IPA Do?

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- Test all relevant aspects of a compliance supplement
- Understand Sampling
- Reporting Findings
- Quality Review
- **DOCUMENTATION**



- 
- **What about from the Auditee side?**
  - **How are you meeting your compliance requirements?**
  - **Who is in charge?**
  - **What if the OIG walked in your front door? Are you prepared?**



# Example Auditee Questions to Identify Internal Control

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## Control Activities:

- How are you certain your organization is in compliance with (insert specific compliance requirement)?

## Risk Assessment:

- How did you determine that (control activity) was necessary to ensure compliance?

## Monitoring:

- What is the process used to ensure the (control activity) is performed correctly and consistently?
- Auditors cannot be part of the auditee's internal controls!



# Example Auditee Questions to Identify Internal Control

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## Information and Communication:

- How and when do you notify people the (control activity) is required?

## Control Environment:

- What is management's attitude about internal control?



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# DOCUMENTATION

If it's NOT documented, it didn't happen!



- 
- **What are you documenting?**
  - **How are you documenting?**
  - **Are you documenting the right things?**





- 
- **How do you document now that many things are electronic?**



- 
- **Are your documented policies and procedures updated?**



- 
- **What are we seeing?**
  - **Be careful with only one individual within your organization having all knowledge over federal awards**



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## Risk Areas:

- Procurement
- Indirect Cost
- Subrecipient Monitoring



# Procurement - Uniform Guidance Changes

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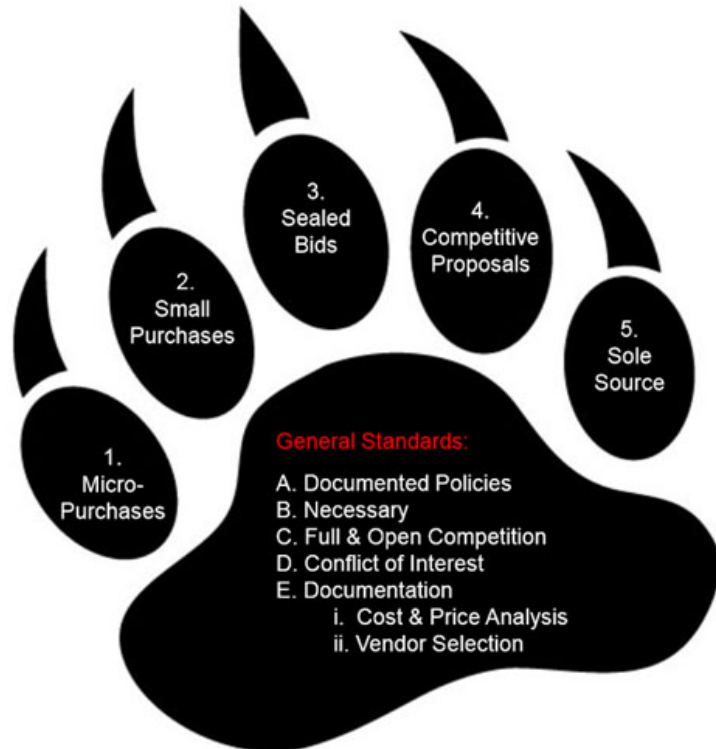
Some of the general standards over procurement include:

- Documented procurement procedures
- Focus on economy and efficiency
- Written conflict-of-interest policies are required
- Documentation of the process – sole source, emergency procurement, etc.
- Oversight of contractors for performance



# Procurement – Uniform Guidance and New Mexico State Procurement

## Procurement “Claw” (Sections 200.317-326)



## New Mexico State Procurement Code (1.4.1 NMAC)

Competitive Sealed Bids to be used unless using one of the below procurement methods



- 1) Competitive sealed proposals
- 2) Small purchases (<\$60,000)
- 3) Sole source
- 4) Emergency procurement
- 5) Procurement under existing contracts
- 6) Purchases from anti-poverty program business



# Suspension and Debarment

## The second half of the procurement process

- Need to check both New Mexico suspension and debarment listing as well as the Federal listing
  - Federal - System for Award Management (SAM.GOV)
- What purchases qualify? Any covered purchases with a vendor exceeding \$25,000

“Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.



# Suspension and Debarment

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## When should I check?

- It's not about just performing the check, but documenting the check was performed before a contract was entered into
- Keep in mind vendors that many small purchases are made with – the threshold may be breached and still requires a suspension and debarment check





# Indirect Costs

The indirect cost pool - when expenses benefit more than one cost objective

**What type of rate are you using/auditing?**

Federally  
Negotiated  
Rate



Submit to Cognizant Agency only after notice of award is received

Pass-Through  
Entity Rate



Pass-through entities must honor the rates that subrecipient has negotiated or negotiate a rate for the subaward

De Minimus  
Rate  
(10%)



Used by entities never having a federally negotiated rate



# Subrecipient Monitoring

- Under Uniform Guidance, only subrecipients, not contractors (previously vendors) are subject to monitoring
- How do you determine a subrecipient from a contractor?

SUBRECIPIENT	CONTRACTOR
<ul style="list-style-type: none"><li>• Determines who is eligible to receive federal assistance</li><li>• Has its performance measured according to whether the objectives of a federal program were met</li><li>• Is responsible for program-related decision making</li><li>• Must adhere to applicable federal program requirements specified in the federal award</li><li>• Uses the federal funds to carry out a program for a specific public purpose as opposed to providing goods or services for the benefit of the pass-through entity</li></ul>	<ul style="list-style-type: none"><li>• Has a procurement relationship with the nonfederal entity</li><li>• Provides goods and services within normal business operations and to many different purchasers</li><li>• Provides goods or services that are ancillary to the operation of the federal program</li><li>• Normally operates in a competitive environment</li><li>• Isn't subject to the compliance requirements of the federal program as a result of the agreement (though similar requirements may apply for other reasons)</li></ul>



# Subrecipient Monitoring

## What is your responsibility?

All subrecipients must be monitored – Subpart D of the Uniform Guidance



- At least annually but more frequent for higher risk subrecipients
- Consideration of:
  - Prior experience
  - Financial stability
  - Complexity of award
  - Federal monitoring
  - Previous audit results
- Customizable

- Driven by the risk assessment
- Identify parties and their responsibilities
- Check for debarment
- On-site or desk reviews
- Progress reporting
- Developing corrective action plans, if needed

- Actively issue management decisions regarding findings during the monitoring process
- Subrecipient must implement remediation plans
- Collaborative process
- This includes consideration of subrecipient's audit findings



# Controls over Compliance

Controls are the foundation of compliance and a UG requirement

**Recipients:** You have to have them

UG Requirement

**Auditors:** You need to make sure they are there



Keep in mind the difference between compliance and controls over compliance



# Controls – Design and Implementation

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## **Procurement, Suspension and Debarment**

- Monitoring purchase orders and ensuring correct procurement method was used (consider centralization of purchasing operations or utilizing checklists)
- Monitoring total expenditures, by vendor, to conduct suspension and debarment checks as required (consider performing search as a part of the PO process for any grant purchases)
- Auditors – understand the process flow and assess if adequate are controls in place during planning



# Controls – Design and Implementation

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## **Indirect Costs**

- Making sure the correct rate is applied to the correct base (transactional vs summary)
- Auditors – not just recalculating but also understand the methodology and rate base for federally negotiated rates



# Controls – Design and Implementation

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## **Subrecipient Monitoring**

- Making sure all subrecipients are identified (consider this being included in the purchasing process)
- Making sure all required information is communicated to subrecipient (consider use of a boiler plate contract or checklists)
- Making sure all subrecipients are risk rated and monitored accordingly (consider centralization of subrecipient monitoring activities)



# Controls – Design and Implementation

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- How does IT play into the control design?
- Does your system allow for automation of controls?





# Findings – Yellow Book Findings To Report

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## **Internal Control over Financial Reporting**

Significant deficiency

Material weakness

## **Fraud and noncompliance with provisions of laws and regulations**

That have a more than clearly inconsequential effect on the financial statements and instances that warrant the attention of those charged with governance

## **Noncompliance with provisions of contracts or grant agreements**

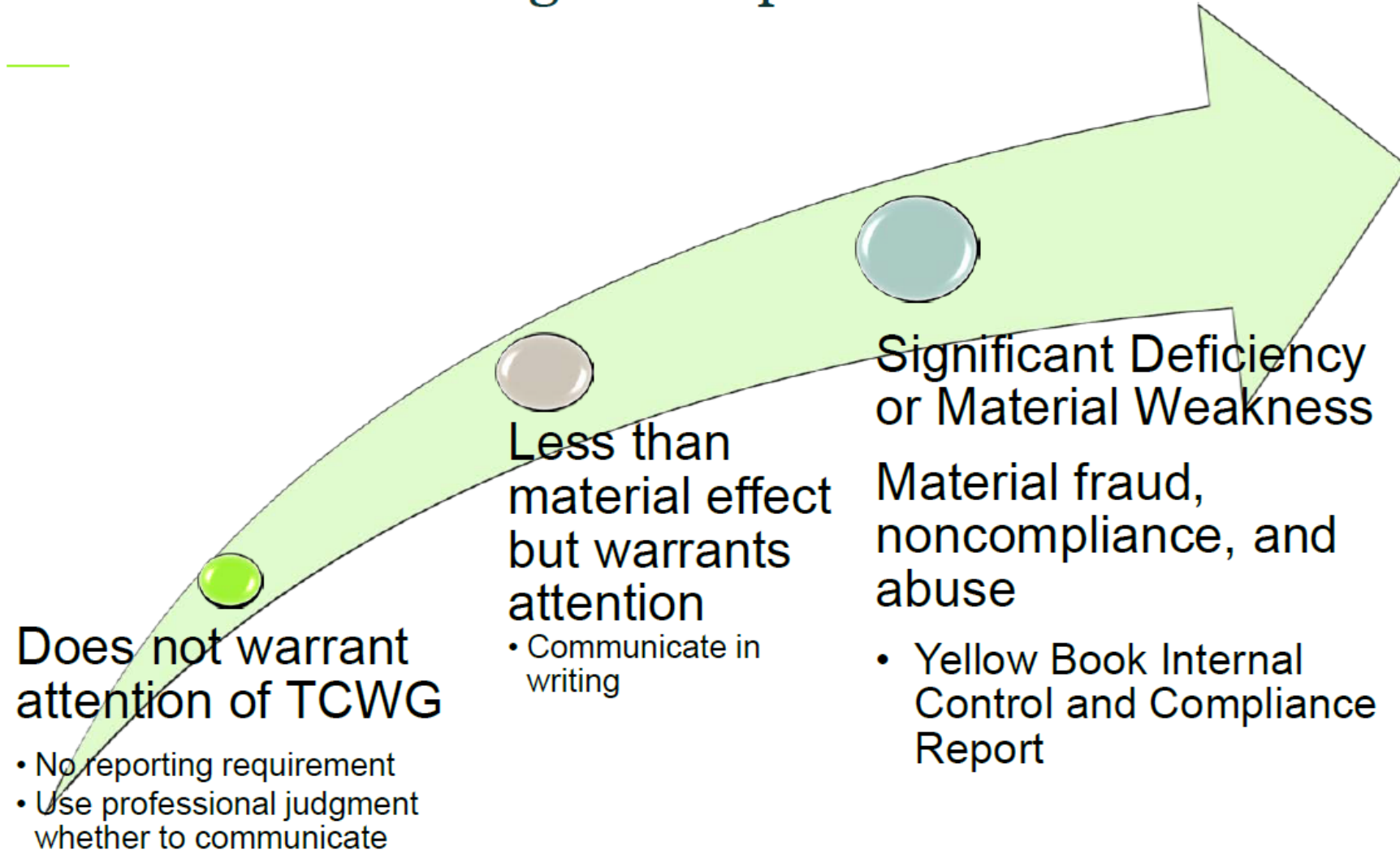
That has a material effect on the financial statements

## **Abuse**

That is material either quantitatively or qualitatively



# Yellow Book Findings To Report



# Resources

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## GAO

- [Yellow Book Web Page](#)
- [Green Book Web Page](#)
- GAO hotline; or (202) 512-9535

## Single Audit

- [Electronic Code of Federal Regulations \(eCFR\)](#)
- [Compliance Supplement \(2018\)](#) “Skinny” version requires use of 2017 supplement
- [Compliance Supplement \(2017\)](#)
- [Access Council on Financial Assistance Reform \(COFAR\)](#)

**CHECK OUT MOST RECENT [FAQ DOCUMENT](#) ISSUED JULY 2017**



# Resources - Auditees

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## AICPA Governmental Audit Quality Center (GAQC) Website—Auditee Resource Center

- [Auditee Practice Aids: The Schedule of Expenditures of Federal Awards, \(assists auditees in preparing the SEFA\)](#)

Two tools - assist in accumulating information about federal programs and a disclosure checklist

- [Practice Issue Noted with Auditee Corrective Action Plan and Summary Schedule of Prior Audit Findings](#)
- [Key Sections of the Uniform Guidance](#)
- [Key Federal Players in the Single Audit Process](#)
- [Auditee Information for Situations When Federal Agencies Request Auditor Certifications](#)



# Resources - Auditors

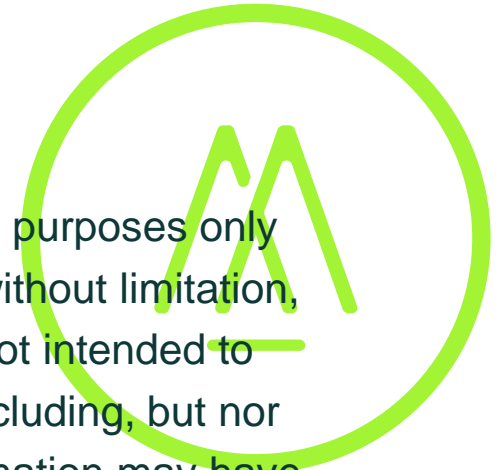
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- AICPA Audit and Accounting Guide, *Government Auditing Standards* and Single Audits
- GACQ Website – membership may be required to access
  - Access [archived GACQ Alerts](#) in chronological order
  - Access [archived GAQC Web events](#)
  - [Uniform Guidance auditor resources](#) web page
  - [Yellow Book tools and resources](#)
  - [Other Compliance Audit Information](#) web page
  - [HUD Information](#) web page
  - [Illustrative Auditors Reports](#)
- Other Articles
  - [Journal of Accountancy – 11 Tips for Success with Single Audits](#)
  - [GACQ – Practice Issue Noted With Auditee Corrective Action Plan and Summary of Schedule of Prior Year Findings](#)



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