

# Single Audit Update

- Minnesota State Auditor's Annual training
- November 18, 2020
- Tammie Brown - Assistant Director DHHS, Single Audit Coordinator

# What We Will Cover

- 1) Impact of COVID on the Single Audit
- 2) Quality Control Issues
- 3) Compliance Supplement Update

# COVID-19 Impact and Challenges for Single Audits

# COVID-19 funding - New and Existing Programs

- New programs: 17 new programs
- CARES Act provided many existing programs with additional funding
- Some existing federal programs have been granted significant flexibilities and/or waivers of compliance requirements by federal agencies such as:
  - SFA
  - Child Nutrition Cluster
  - HUD programs
  - Medicaid

## Applicable Laws

- ▶ Coronavirus Preparedness and Response Supplemental Appropriations Act
- ▶ Families First Coronavirus Response Act
- ▶ Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- ▶ Future relief funding?

# COVID-19 Funding - the Largest 4 New Programs

Paycheck Protection Program  
(>\$600B)

Federal Agency: SBA  
For-profits, NFPs

Is not subject to single audit  
CFDA: 59.073

Provider Relief Fund (\$175B)

Federal Agency: HHS  
For-Profits, NFPs, Governmental  
Entities

Is s subject to single audit  
CFDA: 93.498

Coronavirus Relief Fund (\$150B)

Federal Agency: Treasury  
Governmental Entities and Tribes

Is s subject to single audit  
CFDA: 21.019

Educational Stabilization Fund  
(\$30.75B)

Federal Agency: Education  
States, Schools, IHE

Is s subject to single audit  
CFDA: 84.425

# Fiscal year-end breakdown from Federal Audit Clearinghouse (based on 2018 data)

Fiscal Year-End	Number of Audits	Percentage of Single Audits
March 31st	920	2.59%
June 30th	19,853	54.19%
September 30th	4,064	11.09%
December 31 <sup>st</sup>	9,084	24.79%

We expect many additional single audits for 2020 due to COVID-19 funding!

Based on total single audits of 36,637

# Education Stabilization Fund Sections

- ▶ Education Stabilization Fund Discretionary Grants
- ▶ 84.425B - Rethink K12 Education Models Grants
- ▶ 84.425G - Reimagining Workforce Preparation Grants
- ▶ Governor's Emergency Education Relief Fund (84.425C)
- ▶ Elementary and Secondary School Emergency Relief Fund (84.425D)
- ▶ Formula Grants to the Outlying Areas
- ▶ SEAs (84.425A)
- ▶ Governors (84.425H)

## Higher Education Emergency Relief Fund

- Student Portion (84.425E)
- Institutional Portion (84.425F)
- Historically Black Colleges and Universities (84.425J)
- American Indian Tribally Controlled Colleges and Universities (84.425K)
- Minority Serving Institutions Strengthening Institutions Program (84.425L)
- Strengthening Institutions Program (84.425M)
- Fund for the Improvement of Postsecondary Education (84.425N)

## Institutional Resilience and Expanded Postsecondary Opportunity (84.425P)

**84.425 is considered one program for major program determination purposes**

# SEFA Reporting

- ▶ New COVID-17 programs are introducing challenges for:
  - ▶ Recipients and subrecipients who prepare the SEFA
  - ▶ Auditors who use the SEFA to determine major programs
- ▶ Challenges exist for both direct awards and awards received from pass-through entities
  - ▶ General rule of thumb for SEFA inclusion
    - Underlying activity occurs and an award/subaward exists
    - Does an award/subaward exist?
- ▶ Provider Relief Fund - uncertainty on lost revenue, and health care related expenditures
- ▶ Donated Personal protective equipment, equipment, pharmaceuticals - Clarification on SEFA presentation in addendum.

**The SEFA is critical. It is the underlying basis for the scope of the single audit and the major programs to be audited.**



# Does an Award/Subaward Exist at the SEFA Date?

- ▶ Very challenging to determine in some cases; especially when typical awarding process is not followed due to pandemic crisis
  - ▶ Funds are received in advance of agreeing to terms and conditions
  - ▶ May not be a “signed document”
  - ▶ Award/subaward didn’t exist until fiscal year following year when allowable expenditures were incurred
  - ▶ Particularly challenging for subawards to subrecipients
- ▶ May be a facts and circumstances judgment

**Determining whether there is an award is a critical aspect of determining the appropriate timing for SEFA reporting.**

# Timing and Content of the *Compliance Supplement Addendum*

- Delay of specific audit guidance causing delays in completion of single audits
  - Hopefully issued by end of week

Auditors looking for guidance on

- what is subject to audit
- clarity on what the rules are
- authoritative status of FAQs, website postings

- ▶ The CARES Act established new programs, but there was not time for regulation to be issued clarifying program rules
- ▶ Government has been slow to develop agency guidance both for recipients and auditors
- ▶ Guidance provided on federal agency websites has continually been changing and/or updated and is many forms (FAQs, guidance documents, memos, etc.)
  - ▶ Consider printing guidance used/screen shots to show the date of the guidance used since agencies are changing guidance
- ▶ Many entities receiving these funds have June 30, 2020, year-ends exacerbating the timing issues
  - ▶ These audits will be due March 31, 2021 (no current extension provided)
  - ▶ Delay will push this work into the more traditional busy season (January-March) which is problematic for many firms

What COVID-19  
Specific  
Compliance  
Testing Issues  
are  
Anticipated?

# Other Major Program Determination Considerations

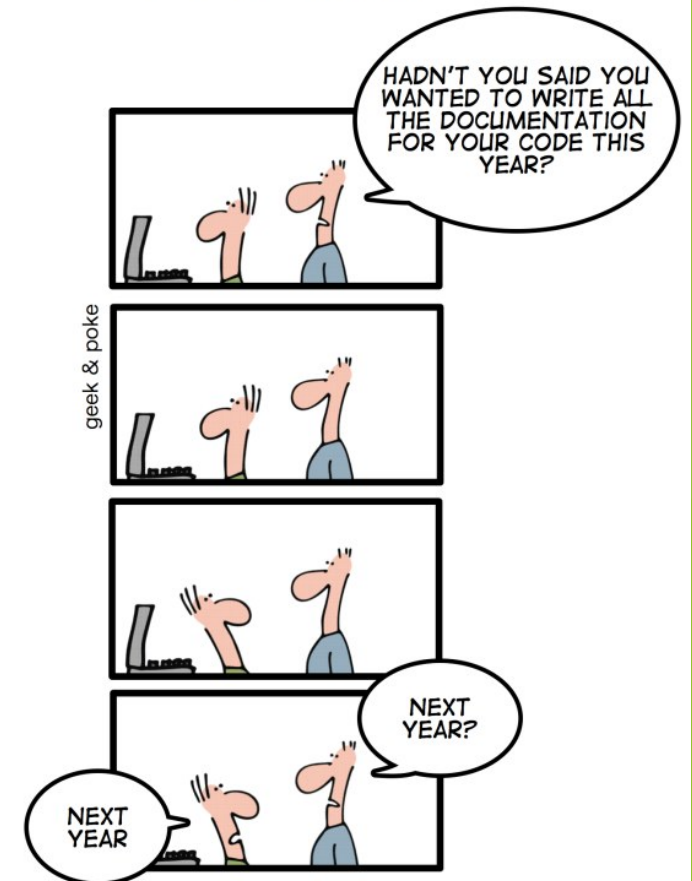
New COVID-19 programs will likely affect MP determination and change the array of programs to be audited from what may be usual.

Auditors should carefully use the guidance in Uniform Guidance to walk through the process and evaluate new COVID-19 programs using that guidance

New Type A COVID-19 programs will have to be audited because they are automatically high-risk since not audited in one of last two years.

Type B COVID-19 programs do not need to be automatically considered higher risk, but consideration and documentation of risk assessment will be important as usual.

## *CODER'S NEW YEAR'S RESOLUTION*



# COVID-19 Internal Control Implications

- Unconventional funding mechanisms
- Uncertainty as to periods of performance
- Uncertainty about additional funding
- Lack of terms and conditions
- Potential for changing internal controls due to remote workplace and other pandemic-related changes



# Attendance Check Slide

# Federal Agency Quality Activities

# IG Audit Quality Role

- ▶ Desk Reviews
- ▶ Quality Control Reviews
- ▶ Peer Reviews
- ▶ OMB working groups
- ▶ Audit guidance development
- ▶ Technical Assistance
- ▶ Training



# How has COVID-19 Impacted DHHS QCR and Peer Review Activities?

- ▶ Remote records reviews
- ▶ Lengthened response times
- ▶ Increased activities
- ▶ Virtual team meeting, entrance and exit conferences
- ▶ OMB filing extensions for reports due in FY 2019
- ▶ More time on Compliance Supplement development
- ▶ More resources devoted to research

# Quality Observations from QCRs and Peer Reviews Performed

# Independence Issues - Evaluating and Documenting Non-audit Services

- Identify nonaudit services and meet preconditions
- SKE of management is not a safeguard
- Financial statement preparation is a key emphasis area in 2018 YB
- Apply effective safeguards when significant threats exist
- If no safeguards - cannot perform the nonaudit service
- Documentation is critical

**Timing of 2018 Yellow Book considerations - effective for June 30, 2020, year-end audits; but must be independent for entire period!**

# CPE issues

- ▶ 80 hours every 2 years
  - ▶ 24 hours governmental
- ▶ 20 hours in each year

	2016-2017	2017-2018
80 hours	47.5	60
24 Govt.	9.5	12

	2016	2017	2018
20 per year	43.5	4	56

**Tip: Review the Yellow Book requirements for CPE and adhere to them!**

*Note: GAO has provided flexibilities for CPE requirements due to COVID -19 restrictions on accessible CPE. Flexibilities allow for 6-month grace period to earn CPE and waived the 20 hours annual requirement. See next slides*

## GAO COVID-19 Extension

The auditor may apply the first 30 hours completed during the grace period to the previous period ending June 30, 2020, and may not apply those hours to the reporting period ending June 30, 2022. If the auditor has not completed the 30 hours of CPE as of December 31, 2020, the audit organization may not allow the auditor to conduct GAGAS engagements until those requirements are satisfied

Tip: *COVID-19 Alert on CPE Requirements for Auditors (February 2020): [View Alert](#) (PDF, 6 pages)*

## Waiver of 20-hour annual CPE requirement

- ▶ Example A: The first year of the audit organization's 2-year CPE period ends on June 30, 2020, and an auditor completed 10 hours of CPE for that year. Under this exception, this auditor is not required to complete the 20 hours of CPE in the year ending on June 30, 2020, but is required to complete the remaining 70 hours, including any of the unmet 24-hour government CPE requirement, by June 30, 2021.
- ▶ Example B: The second year of the audit organization's 2-year CPE period ends on June 30, 2020, and an auditor completed only 10 hours of CPE for that second year but had completed 70 hours in the first year and had met the 24-hour government CPE requirement. Under this exception, this auditor is not required to complete the 20 hours of CPE in the year ending on June 30, 2020.

▶ Tip: This is an exception from 2018 GAGAS paragraph 4.17

# GAO COVID-19 Extension

## ▶ Carry Over of CPE

- ▶ Exception provided: From the audit organization's 2-year period in effect on February 29, 2020, auditors may carry over up to 40 hours of CPE, in excess of the 80-hour requirement, to the next CPE measurement period. For 2-year CPE measurement periods ending after December 31, 2020, only CPE hours earned through December 31, 2020 may be carried over. Auditors may not carry over excess CPE earned in prior 2-year CPE periods.
- ▶ Auditors **cannot** count CPE hours carried over from one CPE measurement period to the next toward the 24-hour requirement for subject matter directly related to the government environment; government auditing; or the specific, unique environment in which the audited entity operates. CPE hours carried over cannot be used to meet the 20-hour annual CPE requirement.

▶ Tip: This is an exception from 2018 GAGAS paragraph 4.45

# Documentation Issues

**Fraud considerations**

**Response to identified risk**

**Supervisory review**

**Actual audit steps**

**Outside of the official audit files**

**Preparation and review dates**



# Documentation Requirements

**If it was not documented, it was not done!**  
**Key areas of documentation include:**

Materiality levels and basis for how determined

Major program determination - including individual program risk assessments

Understanding and testing of internal control over compliance

Compliance testing and support for sampling used

Overall conclusions

▶ Need to meet overall documentation requirements of AU-C section 230, *Audit Documentation and Government Auditing Standards* - “the experienced auditor concept”

# Major Program Determination Issues

## Percentage of coverage (2 CFR 200.518(f))

- Incorrectly relying solely on calculation
- Auditee risk errors (2 CFR 200.520)
- Mathematical errors

## Missed Major Programs

- Documentation of risk analysis (2 CFR 200.518(g))
  - Reduced compliance requirements implications
  - Two year look back errors
- Threshold errors (2 CFR 200.518(b))
- Type A programs (2 CFR 200.518(a and b), 2 CFR 200.519(c))
- Type B programs (2 CFR 200.518(d), 2 CFR 200.519)

# Major Program Determination Issues Continued

## Clusters

- Ignoring OMB guidance
- Creating own clusters
- Not including all programs as part of a cluster

## Loan Programs

- Not excluding large loan/loan guarantee programs in determining other Type A programs
- Counting a program or cluster as a loan program when it does not meet the criteria

# Loan Program Considerations

The inclusion of large loan and loan guarantees must not result in the exclusion of other programs as Type A programs. (2 CFR 200.518(b)(3))

- ▶ A program/cluster is considered to be a loan program when the loans in the program/cluster comprise 50% or more of the program/cluster.
- ▶ A loan program is considered to be large if it is four times the largest non-loan program

# Compliance Requirement

## ▶ Issues

Failure to properly identify requirements subject to audit

Failure to document basis for requirements not material and direct

# Determining Compliance Requirements to Test

- ▶ Obtain an understanding of each major program
- ▶ Identify which requirements are subject to audit using Supplement matrices
  - ▶ Also consider if there are financial statement implications that come into play for those not identified as subject to audit
- ▶ Review contracts and grant documents
  - ▶ Determine key elements (e.g., amount, timing, compliance requirements related to requirements subject to audit, etc.)

# Sampling issues

- ▶ Data reliability
- ▶ Incomplete or wrong populations
- ▶ Multi-purpose sample
- ▶ Dual-purpose sample
- ▶ Replacement items
- ▶ Methodology
- ▶ Evaluation of results
- ▶ Sampling from a sample

**GAS-SA Guide,  
chapter 11,  
*Audit Sampling  
Considerations  
of Uniform  
Guidance  
Compliance  
Audits, for  
guidance on  
sampling***

# Sample Selection Pitfalls

- ▶ Poor definition of the population
- ▶ Definition and understanding is required to utilize the tables appropriately
- ▶ Sample size too small or not supported for appropriate level of control risk
- ▶ Failure to recognize when controls are significant or there is inherent risk
- ▶ Failure to consider the impact of control testing on the compliance sample size
- ▶ Trying to do too much with one sample
- ▶ Too quick to make the selection

***Remember: Pulling is the easy part....as long as the planning has been done***



# Internal Controls Quality Issues



## Understanding

Level

Multiple systems vs. single system



## Planned Testing

Controls vs. processes

Automated systems



## Testing

Controls vs. compliance

# Internal Control Over Compliance

Not considering risk of material noncompliance including;

- Identify, Assess, Respond, Evaluate

Documentation of preliminary assessment of controls

Internal controls should be continually re-evaluated throughout the audit process

Understand the difference between testing controls and testing compliance

- Controls: What did entity do to ensure compliance?
- Compliance: Did entity comply?

# Internal Control Over Compliance



Testing compliance gives indirect evidence on controls, but cannot serve as the basis for assessing controls as operating effectively



2-step testing process

Controls are designed effectively and placed into operation  
Key controls are operating effectively (low control risk)

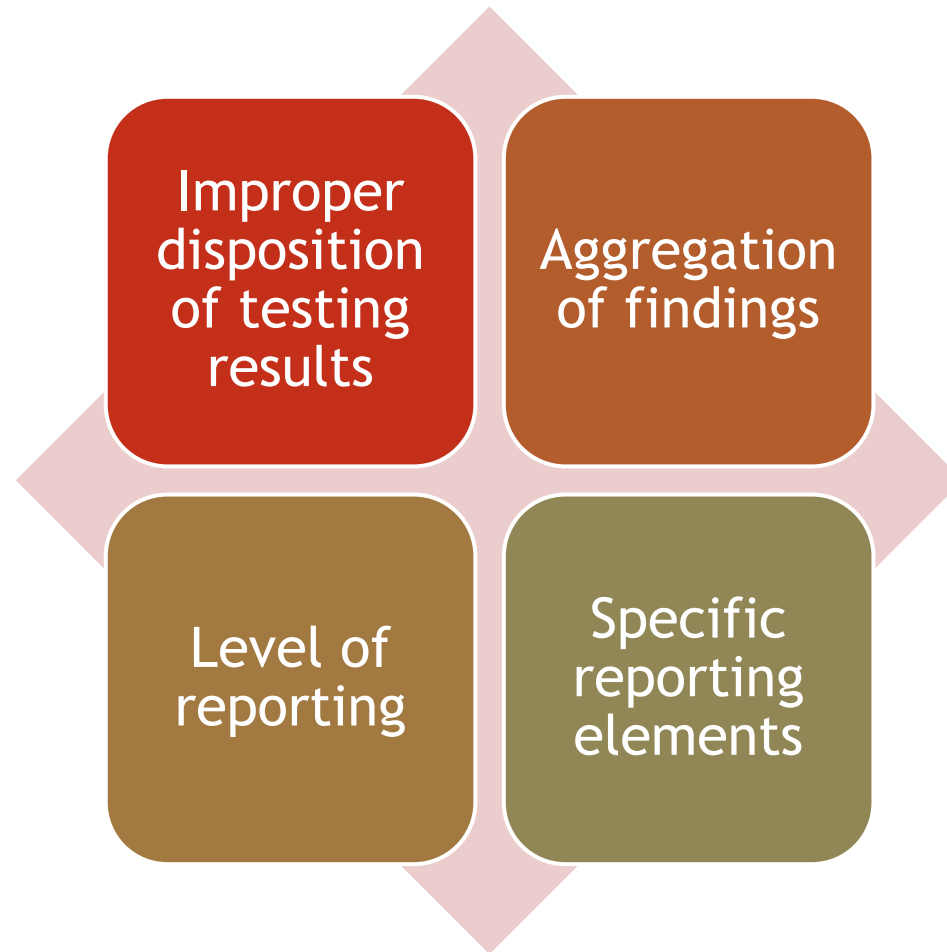


Important to identify and document the key controls to be tested



Remember to consider IT controls when evaluating design and when testing for operating effectiveness

# Development of Audit Findings Issues



## Reporting Issues

- ▶ Corrective action plans
- ▶ Missing elements
- ▶ Reliance on the work or reports of other auditors
- ▶ Required notes to the SEFA
- ▶ Inaccuracies in the SEFA
- ▶ Additional assurances
- ▶ Inaccuracies in the SF-SAC
- ▶ Inaccuracies in major program identification
- ▶ Errors in reporting audit results in the Summary Schedule of Auditors' Results

Note: UG requires Corrective Action Plan to be separate and on auditee letterhead



Questions are the path to learning