

Central Florida Government Finance Officers Association

*Auditing
Developments Update
February 7, 2014*



Program Agenda

- ▶ Overview of 2011 Yellow Book Revisions
- ▶ Overview of Clarity Standards
- ▶ Overview of proposed changes to OMB Circulars
- ▶ Overview of new data collection form for Federal Single Audits



Yellow Book Revisions

2011 Yellow Book Revisions

- ▶ Effective for financial audits for periods ending on or after December 15, 2012
- ▶ Introduced a conceptual framework approach to independence using threats and safeguards
- ▶ Nonaudit services not specifically prohibited must be evaluated for independence against the conceptual framework and management's ability to effectively oversee

2011 Yellow Book Revisions

- ▶ Eliminated the need for auditors to provide the latest peer review report, unless specifically requested
- ▶ Eliminated the need to reference other communications on internal control or compliance, when applicable, in Yellow Book reports
- ▶ Eliminated restatement and planning communication requirements--defaults to AICPA requirements

2011 Yellow Book Revisions

Seven Categories of Independence Threats

1. Self-interest threat
2. Self-review threat
3. Bias threat
4. Familiarity threat
5. Undue influence threat
6. Management participation threat
7. Structural threat

2011 Yellow Book Revisions – Independence

The Conceptual Framework Steps

1. Identify threats
2. Evaluate significance
3. Apply safeguards
4. Determine threat level is acceptable



AICPA Clarity Standards

Clarity Standards Overview

- ▶ SAS 122-127
- ▶ Audit report format is significantly changed
 - Modified and unmodified opinions
- ▶ Group audit concept based on existence of components, as defined
- ▶ Considerable new terminology and documentation requirements, particularly in relation to group audits

Clarity Standards Overview

- ▶ Consistency
 - AU-C 708 requires evaluation of changes in presentation and material reclassifications in prior year financial statements for possible changes in accounting principle or correction of an error
 - May impact report and disclosure
- ▶ SAS 125 Restricted Use Paragraph
 - Revised to present purpose of the report, rather than restriction, when using *Government Auditing Standards and reporting on compliance or internal control*

Clarity Standards Overview

- ▶ SAS 125 restricted use versus purpose issues
 - Restricted use applies to SAS 114 letters and to restricted reports not associated with Yellow Book audits
 - Purpose paragraph
 - Yellow Book internal control and compliance report and Single Audit reports.
 - Other communications on internal control or compliance when in relation to an Yellow Book audit and regulatory or contractual compliance reports.



OMB Revisions

Super Circular

- ▶ Office of Management and Budget (OMB) published it's long awaited Super Circular on December 26, 2013, in the Federal Register
 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
 - federalregister.gov/a/2013-30465

Background

▶ **Presidential Directives for Reform:**

- November 2009 EO 13520 on Reducing Improper Payments
- February 2011 Presidential Memorandum

▶ **Engagement with Stakeholders:**

- February 2012 Advance Notice of Proposed Guidance (ANPG) in Federal Register (over 350 comments)
- The Council on Financial Assistance Reform (COFAR) developed Proposed Guidance reflective of stakeholder feedback

Purpose

▶ **Overarching purposes and impact**

- Increase efficiency and effectiveness
- Eliminate unnecessary and duplicative requirements
- Focus audit efforts
- Reduce administrative burden for non-Federal entities receiving Federal awards while reducing the risk of waste, fraud and abuse

Summary of Proposal

▶ **Streamlining of Related Circulars and Guidance**

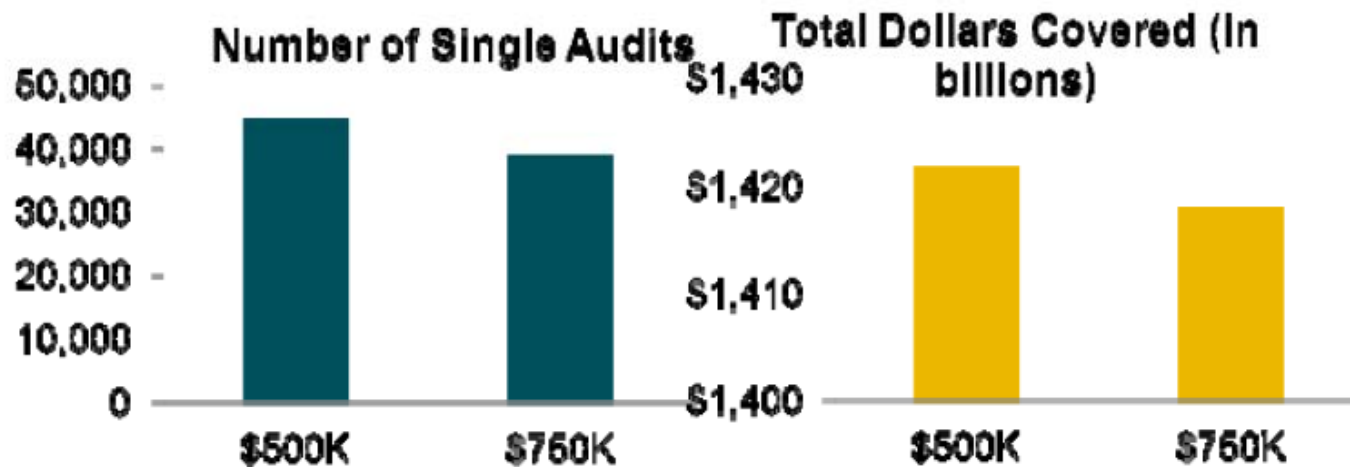
- A-21, Cost Principles for Educational Institutions
- A-50, Audit Follow-Up, related to Single Audit
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments
- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations

Risk Based Audits

- ▶ **Raise audit threshold from \$500K to \$750K**
- ▶ **Revise definition of “Major Programs” to focus audits on material issues**
- ▶ **Strengthen audit follow-up**
- ▶ **Transparency with audit reports on the Web**

Single Audit Threshold

- ▶ Increase audit threshold from \$500,000 to \$750,000
- ▶ Based on single audits submitted to the FAC for 2011, there would be approximately 6,300 fewer entities subject to a single audit, with only a reduction coverage of approximately \$3.9 billion, or less than 1%



SEFA Changes

- ▶ Disclose in notes the balances outstanding of loan or loan guarantee programs
- ▶ Disclose in notes whether or not the entity elected to use the 10% de minimis cost rate for indirect costs allowed under Section 200.414

Audit Findings Changes

- ▶ Known questioned costs greater than \$25,000 to be reported; current requirement is \$10,000
- ▶ Reference numbers are to be in a prescribed format and should agree to the data collection form. This format will be a 4 digit fiscal year, a hyphen and 4 digit sequence number, such as 2014-001
- ▶ Finding is to include whether sample was statistically valid and include proper perspective

Major Program Determination Changes

- ▶ Type A programs-minimum of \$750,000
- ▶ For expenditures > \$25 million and < \$100 million, 3% of expenditures identify A programs
- ▶ If less than A threshold, it is a B program. Max of ¼ of the number of low-risk A programs for risk assessment; only B programs 25% of A threshold
- ▶ Must audit 40% of total expenditures if high risk and only 20% if low risk (current 50% and 25%)
- ▶ Federal agency may require high risk status

Step 1 - Type A Threshold

- ▶ Groupings are based on dollars —

| Total Federal awards expended | Type A/B threshold |
|---|--|
| Equal to \$750,000 but less than or equal to \$25 million | \$750,000. |
| Exceed \$25 million but less than or equal to \$100 million | Total Federal awards expended times .03. |
| Exceed \$100 million but less than or equal to \$1 billion | \$3 million. |
| Exceed \$1 billion but less than or equal to \$10 billion | Total Federal awards expended times .003. |
| Exceed \$10 billion but less than or equal to \$20 billion | \$30 million. |
| Exceed \$20 billion | Total Federal awards expended times .0015. |

Large Loan Programs

- ▶ The inclusion of large loan and loan guarantees (loans) should not result in the exclusion of other programs as Type A programs.
- ▶ When a Federal program providing loans exceeds four times the largest non-loan program
 - Considered a large loan program & must be Type A program
- ▶ A cluster of programs is treated as one program in determining Type A programs.
- ▶ A program is only considered to be a loan program if the value of awards expended for loans comprises 50% or more of the total awards expended for the program

Step 2 - High-Risk Type A Programs

- ▶ **Current default criteria:**
- ▶ **Not audited as major program in 1 of 2 most recent audit periods**
- ▶ **In most recent period, had any of the following for program:**
 - ▶ Material noncompliance
 - ▶ Internal control:
 - ▶ Material weakness
 - ▶ Significant deficiency
 - ▶ ARRA expenditures in current year
 - ▶ Other – Auditor judgment
 - ▶ **Written request by federal awarding agency to audit as major (180 days notice)**
- ▶ **Updated default criteria:**
- ▶ **Not audited as major program in 1 of 2 most recent audit periods**
- ▶ **In most recent period, had any of the following for program:**
 - ▶ Modified opinion
 - ▶ Material weakness in internal control
 - ▶ Known or likely questioned costs that exceed 5% of the total expenditures of the program
 - ▶ Other – Auditor judgment
 - ▶ **Written request by federal awarding agency to audit as major (180 days notice)**

Step 3 - High-Risk Type B Programs

- ▶ **Current:**
- ▶ **Currently there are two Type B risk assessment options:**
- ▶ Option 1 – Perform risk assessments on all Type B programs and select one half of Type B programs identified as high risk up to number of low-risk Type A programs
- ▶ Option 2 – Perform risk assessments on all Type B programs* until as many high risk Type B programs have been identified as there are low-risk Type A programs.
- ▶ **Updated:**
- ▶ **The auditor is not required to identify more high-risk Type B programs than at least one fourth the number of low-risk Type A programs identified as low-risk**
- ▶ **Only required to perform risk assessments on Type B programs that exceed 25% of the Type A threshold**

Step 4 – Minimum Coverage

- ▶ At a minimum, the auditor must audit all of the following as major programs:
 - All Type A programs not identified as low risk under step two
 - All Type B programs identified as high-risk under step three
 - Such additional programs as may be necessary to comply with the percentage of coverage rule

Percentage of Coverage Requirement

- ▶ Reduces the minimum coverage required as follows:

| Type of Auditee | Current | Proposed |
|-----------------|---------|----------|
| Not Low Risk | 50% | 40% |
| Low Risk | 25% | 20% |

Low-Risk Auditee

- ▶ **Current (must meet all) :**
- ▶ **Annual single audits**
- ▶ **Unmodified opinions on financial statements and SEFA**
- ▶ **No Material Weakness under requirements of GAGAS**
- ▶ **In either of preceding two years, none of Type A programs had:**
- ▶ Material Weakness
- ▶ Noncompliance with material effect
- ▶ Known or likely questioned costs that exceed 5% of total expended for Type A program
- ▶ **Timely filing with FAC (now in**
- ▶ **Appendix VII of Supplement.**
- ▶ **Waivers**
- ▶ **Updated: (must meet all)**
- ▶ **Annual single audits**
- ▶ **F/S were prepared in accordance with GAAP, or a basis of accounting required by state law**
- ▶ **Unmodified opinions on financial statements and SEFA**
- ▶ **No going concern reported**
- ▶ **No Material Weakness under requirements of GAGAS**
- ▶ **In either of preceding two audit periods no of Type A programs had:**
- ▶ Material Weakness
- ▶ Modified opinion on compliance
- ▶ Known or likely questioned costs that exceed 5% of total expended for Type A program

Strengthening Audit Follow-Up

- ▶ **Agencies designate a Single Audit Accountable Official from agency senior policy officials**
 - Key Management Single Audit Liaison (working level)
 - Agency management point of contact
 - Support Single Audit Accountable Official
- ▶ **Requiring agencies to implement audit-risk metrics**
- ▶ **Encouraging agencies to:**
 - Engage in cooperative audit resolution.
 - Proactive to resolving weaknesses & deficiencies

Finding Elements



Single Audits on the Web

- ▶ **Subrecipient only required to submit report to FAC and no longer required to submit to recipient**
- ▶ **Pass-Through Entity no longer required to retain copy of subrecipient audit as on Web**
- ▶ **Require FAC to make the reporting packages available to the public**



New Data Collection Form

New Data Collection Form

- ▶ Internet access address is
- ▶ <https://harvester.census.gov/facides/Account/login.aspx>
- ▶ Access with email address and password
- ▶ Form is in excel work book format, with tabs
- ▶ Auditor creates form and completes contents; identify loan and loan guarantee grants
- ▶ Grantee is to upload required financial statement information
- ▶ Form is then certified by auditor and grantee

New Data Collection Form

- ▶ New finding reference requirements and more information required for each finding
- ▶ All filings associated with email address are identified on the site so more accessible
- ▶ No longer get email link for next step in process; must access web site after notification without use of link