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# **Single Audit and Yellow Book / Govt. Audit Standards Update**

**Presented by:**  
**William Blend, CPA, CFE**

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# Topics

- Overview of New Single Audit Uniform Guidance
- Yellow Book Update and New Green Book



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**OMB - 2CFR CHAPTER 1 AND  
CHAPTER II,  
PARTS 200, 215, 220, 225 AND 230**

**UNIFORM ADMINISTRATIVE  
REQUIREMENTS,  
COST PRINCIPLES, AND AUDIT  
REQUIREMENTS FOR FEDERAL  
AWARDS**



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# What Was

**Administrative Requirements**

- A-89
- A-102
- A-110



**Cost Principles**

- A-21
- A-87
- A-122



**Audit Requirements**

- A-133
- A-50



# What Will Be

**Uniform Requirements**

# Uniform Guidance Components

- Subpart A – Acronyms and Definitions
- Subpart B – General Provisions
- Subpart C – Pre-Award Federal Requirements and Contents of Federal Awards
- Subpart D – Post-Federal Award Requirements
- Subpart E – Cost Principles
- Subpart F – Audit Requirements



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# Circular Appendices

- Appendix I – Full Text of Notice of Funding Opportunity
- Appendix II – Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
- Appendix III – Indirect Cost Procedures Educational Institutions (IHEs)
- Appendix IV – Cost Identification and Assignment, and Rate Determination for NFPs
- Appendix V – S&LG, Indian Tribes – Wide Central Service Cost Allocation Plans



# Circular Appendices *(Cont.)*

- Appendix VI – Public Assistance Cost Allocation Plans
- Appendix VII – S&LG and Indian Tribe Indirect Cost Proposals
- Appendix VIII – NFPs Exempted from Subpart E – Cost Principles
- Appendix IX – Hospital Cost Principles
- Appendix X – Data Collection Form
- Appendix XI – Compliance Supplement



# POLICY REFORMS

# Nine Points of Reform

## 1. Elimination of duplicate and conflicting guidance

Combining 8 previously separate sets of OMB guidance into one (displayed on previous slide). Moving forward, federal agencies will implement guidance in unison, which should provide non-federal entities with consistent future implementation schedules.

# Nine Points of Reform *(Cont.)*

## 2. Focus on Performance over Compliance for Accountability

**Section 200.102** notes that on a case-by-case basis OMB will waive certain compliance requirements and approve new strategies for innovative program designs.

**Section 200.201** provides for cooperative agreements and fixed amount awards to minimize compliance requirements.

**Section 200.301** provides robust guidance for federal agencies to measure performance.

**Sections 200.419 and 200.430** provides specific guidance related to various costs to evaluate over burdensome compliance requirements.



# Nine Points of Reform *(Cont.)*

## 3. Encourage Efficient Use of IT and Shared Services

Updates provisions throughout the guidance to account for efficient use of electronic information, as well as the acquisition and use of IT systems and services.



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# Nine Points of Reform *(Cont.)*

## 4. Provide for Consistent and Transparent Treatment of Costs

Guidance updates policies on direct and indirect cost to reduce administrative burden by providing more consistent and transparent treatment government wide.



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# Nine Points of Reform *(Cont.)*

## 5. Limiting Allowable Costs to Make the Best Use of Federal Resources

Guidance strengthens language in certain items of cost to appropriately limit costs under federal awards.

**Section 200.432** clarifies allowable conference spending.

**Section 200.437** eliminates “morale” costs for employee health and welfare.

**Section 200.464** limits previously unlimited amount for costs associated with employee’s vacant home for relocation costs.

**Section 200.469** expands the limitation on student activity costs previously applied to IHE’s.



# Nine Points of Reform *(Cont.)*

## 6. Setting Standard Business Processes Using Data Definitions

Includes provisions that set the stage for federal agencies to manage federal awards via standardized business processes and use of consistently defined data elements. Expected to reduce administrative burden on non-federal entities that deal with multiple federal agencies.

# Nine Points of Reform *(Cont.)*

## 7. Encourage Family-Friendly Policies for Non-Federal Entities

Provide flexibilities that better allow entities receiving federal funds to have policies that allow their employees to balance their personal and professional lives. Specifically, certain provisions allow for policies that ease dependent care costs when attending conferences. One that has prevented women from maintaining careers in science.

# Nine Points of Reform *(Cont.)*

## 8. Strengthening Oversight

Strengthens oversight by requiring federal agencies and pass-through entities to review the risk associated with a potential recipient prior to making an award. Including making better use of available audit information.



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# Nine Points of Reform *(Cont.)*

## 9. Targeting Audit Requirements on Risk of Waste, Fraud and Abuse

Guidance right-sizes the footprint of oversight and Single Audit requirements to strengthen oversight and focus audits where there is greatest risk of waste, fraud, and abuse. Intended to improve transparency and accountability by making single audit reports available to the public online. Encourages federal agencies to take a proactive, cooperative approach to audit finding resolution.

# SINGLE AUDIT CHANGES

# Single Audit Changes

- Increase audit threshold from \$500,000 to \$750,000
- Expected to reduce burden on 5,000 non-federal entities
- Maintains coverage of more than 99% of federal grant funds currently covered



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# Single Audit Changes (Cont.)

Increase minimum threshold for Type A programs from \$300,000 to \$750,000

Federal Awards Expended	Type A/B Threshold
\$750,000 less than equal to \$25 million	\$750,000
Exceed \$25 million less than equal to \$100 million	Amt. of Federal Awards times .03
Exceed \$100 million less than equal to \$1 billion	\$3 million
Exceed \$1 billion less than equal to \$10 billion	Amt. of Federal Awards times .003
Exceed \$10 billion less than equal to \$20 billion	\$30 million
Exceed \$20 billion	Amt. of Federal Awards times .0015



# Single Audit Changes *(Cont.)*

## Audit Coverage Rule

- If auditee meets criteria in 200.520 (low risk), all major programs in aggregate must cover at least 20% of federal awards. Reduced from 25%.
- If auditee does not meet criteria in 200.520 (low risk), all major programs in aggregate must cover at least 40% of federal awards. Reduced from 50%.

Focus continues to be on highest risk programs



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# Single Audit Changes (Cont.)

## Auditor Type B Program Analysis

- Identify Type B programs which are high risk using professional judgment and criteria in 200.519
- Expected to perform risk assessment of Type B programs that exceed 25% of the Type A threshold (previously stepped approach) (ex.,  $\$750k * .25 = \$187,500$ )
- Continues to encourage utilization of an assessment of risk that would result in different Type B programs to be audited over a period of time



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# Single Audit Changes (Cont.)

## Findings and Questioned Costs

- Must report known or questioned costs that are greater than \$25,000 (increase from \$10,000)
- Continued emphasis on findings, including detail with specifics to allow auditee to prepare the appropriate corrective action plan
- Continued emphasis on identification of prior findings, including updates and details as to why finding is not corrected, if applicable

# Changes to Major Program Determination

Type A programs will be designated as high risk only if:

- In the most recent period, the program failed to receive an “unqualified” (unmodified) opinion
- Had a material weakness in internal controls
- Had questioned costs exceeding 5% of program expenditures

Criteria that Type A programs be audited as major at least once every three years remains unchanged



# Changes to Major Program Determination *(Cont.)*

Reduce the number of Type B programs that must be tested as major from at least one-half (1/2) to at least one-fourth (1/4) of the number of low-risk Type A programs identified. Continues to allow the auditor to stop the risk assessment process at this point.



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# Other Audit Changes

Reduce minimum coverage from 50% for high-risk auditee to 40% and for low-risk auditee from 25% to 20%

Questioned cost threshold for reporting increased from \$10,000 to \$25,000



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# Other – Compliance Requirements

- No action taken related to the compliance requirements at this time
- COFAR recommends further public outreach
- Compliance supplement is published as part of a separate process and, therefore, is included in the super circular by reference under Appendix XI

# Other – Compliance Requirements *(Cont.)*

- The 2013 and 2014 compliance supplements will follow A-133
- The 2015 compliance supplement will follow requirements issued on December 26, 2014



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# Designation of Agency Officials

- ***Single Audit Accountable Official*** – Official responsible for ensuring the agency is in compliance with all audit requirements and improving effectiveness of agency's use of single audits.
- ***Single Audit Liaison*** – Official serving as agency's point of contact for the single audit process.



# Monitor Resources

## OMB

- [http://www.whitehouse.gov/omb/financial\\_default/](http://www.whitehouse.gov/omb/financial_default/)

## COFAR

- <https://cfo.gov/cofar>



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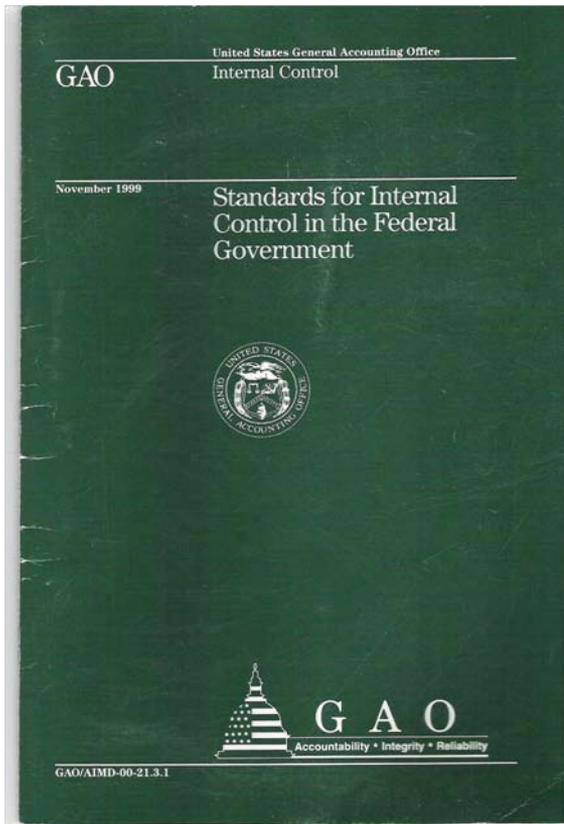
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# YELLOW BOOK / GOVT. AUDIT STANDARDS UPDATE

# Yellow Book Update

- ❖ Most recent update occurred in 2011
- ❖ Updated to conform to new audit standards
- ❖ Reorganized the format of the document
- ❖ Implemented a principals based approach to Independence

# Standards for Internal Control in the Federal Government



## Going Green



U.S. GOVERNMENT ACCOUNTABILITY OFFICE



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# Discussion Areas

- To discuss GAO's planned revision to the *Standards for Internal Control in the Federal Government* (Green Book)
- To discuss why internal controls are a key tool government managers use

# Reasons for Green Book Revision

- Last issued in November 1999
- Adapt to a more global, complex, and technological landscape
- Maintain relevancy to changing standards
- Harmonize federal standards with the updated Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework



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# What's in Green Book for the Federal Government?

- Reflects federal internal control standards required per Federal Managers' Financial Integrity Act (FMFIA)
- Serves as a base for OMB Circular A-123
- Written for government
  - Leverages the COSO Framework
  - Uses government terms



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# What's in Green Book for State and Local Governments?

- May be an acceptable framework for internal control on the state and local government level under proposed OMB Uniform Guidance for Federal Awards
- Written for government
  - Leverages the COSO Framework
  - Uses government terms

# What's in Green Book for Management and Auditors?

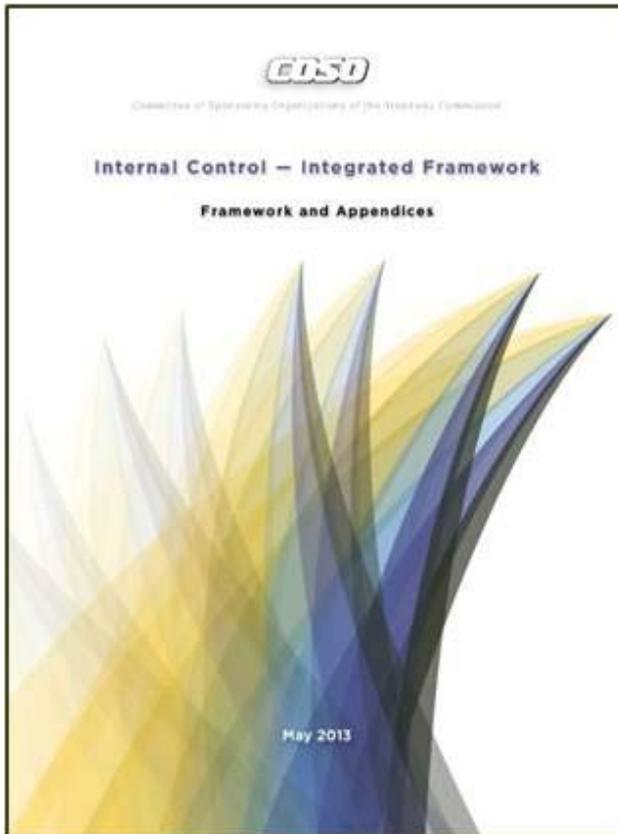
- Provides a framework for management
- Provides criteria for auditors
- Can be used in conjunction with other standards, e.g., Yellow Book



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# Updated COSO Framework



**Released  
May 14, 2013**

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# Internal Control: COSO Framework

- Published by COSO
  - COSO is sponsored by
    - American Accounting Association (AAA)
    - American Institute of Certified Public Accountants (AICPA)
    - Financial Executives International (FEI)
    - Institute of Management Accountants (IMA)
    - Institute of Internal Auditors (IIA)
- Established:
  - Common internal control definitions
  - Internal control components

# The COSO Framework

- Relationship of Objectives and Components
  - Direct relationship between objectives (which are what an entity strives to achieve) and the components (which represent what is needed to achieve the objectives)
- COSO depicts the relationship in the form of a cube:
  - The three objectives are represented by the columns
  - The five components are represented by the rows
  - The entity's organizational structure is represented by the third dimension



Source: COSO

# Updated COSO Framework

- Retains the five components and adds principles and points of focus
- Sets out 17 principles
  - Fundamental concepts associated with the components
- Each principle is supported by related points of focus
  - Represent characteristics associated with the principles

# Updated COSO Framework: Components of Internal Control

## Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

## Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

## Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

## Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

## Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

# From COSO to Green Book: Harmonization

COSO

Green Book

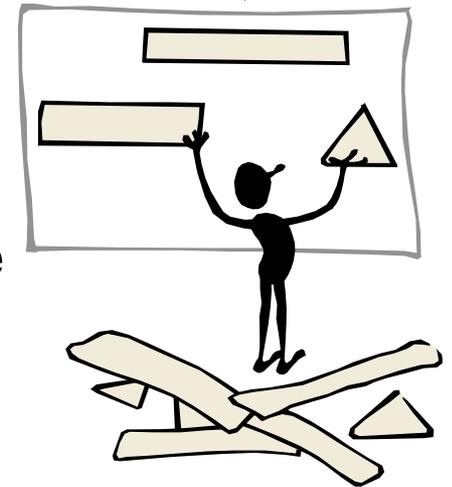
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# Green Book Revision Process

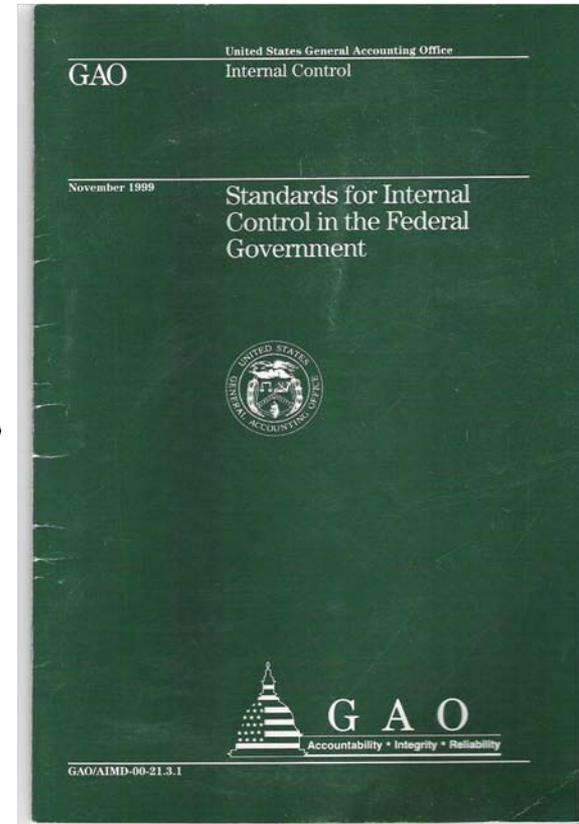
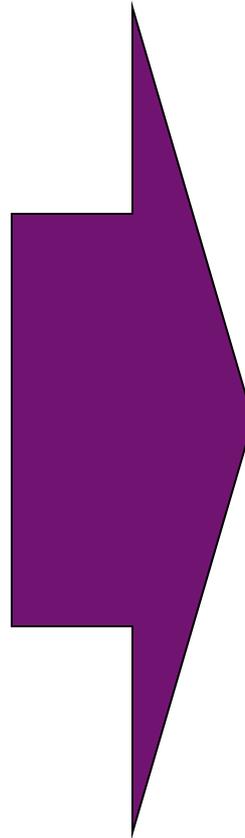
- Retained five original COSO components
- Adapted COSO Framework's language to make it appropriate for a federal government standard
- Adapted the concepts for a government environment, where appropriate
- Considered clarity drafting conventions
- Considered INTOSAI internal control guidance



# Revised Green Book: Standards for Internal Control in the Federal Government

Overview

Standards



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# Revised Green Book: Overview

- Explains fundamental concepts of internal control
- Addresses how components, principles, and attributes relate to an entity's objectives
- Discusses management evaluation of internal control

Overview

Standards



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# Overview: Components, Principles, and Attributes

Achieve Objectives

Overview

Standards



Components



Principles



Attributes



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# Overview: Principles and Attributes

- In general, all components, principles, and attributes are required for an effective internal control system
- Principles and Attributes
  - Entity should implement relevant principles and attributes
  - If a principle or attribute is not relevant, document the rationale of how, in the absence of that principle or attribute, the associated component could be designed, implemented, and operated effectively

Overview

Standards



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# Overview: Management Evaluation

An effective internal control system requires that each of the five components are:

- Effectively designed, implemented, and operating
- Operating together in an integrated manner

Overview

Standards

Management evaluates the effect of deficiencies on the internal control system

A component is not likely to be effective if related principles and attributes are not effective

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# Revised Green Book: Standards

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Overview

**Standards**

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# Revised Green Book: Standards *(Cont.)*

- Discusses requirements of each component

Overview

**Standards**

- Explains principles and attributes for each component
- Includes application material for each attribute



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# Standards: COSO vs. Green Book

Component	COSO	Green Book
Control Environment	5 Principles 20 Points of Focus	5 Principles 13 Attributes
Risk Assessment	4 Principles 27 Points of Focus	4 Principles 10 Attributes
Control Activities	3 Principles 16 Points of Focus	3 Principles 11 Attributes
Information & Communication	3 Principles 14 Points of Focus	3 Principles 7 Attributes
Monitoring	2 Principles 10 Points of Focus	2 Principles 6 Attributes

Note: GAO combined COSO's points of focus into attributes

Overview

Standards

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# Standards: Harmonization from COSO to Green Book

Overview

Standards

Commercial  
Concepts

- Board of Directors
- Investors

Government  
Concepts

- Oversight Body
- Stakeholders

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# Standards: Harmonization Example

Overview

## COSO (Principle 2)

Standards

*The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.*

## Green Book (Principle 2)

*The oversight body should oversee the entity's internal control system.*



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# Green Book Revision Proposed Timeline



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# Green Book Advisory Council

Representation from:

- Federal agency management (nominated by OMB)
- Inspector General
- State and local governments
- Academia
- COSO
- Independent public accounting firms
- At large

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# Definition of Internal Controls

- Internal control is an integral part of an organization's management that provides reasonable assurance that the agency's objectives are being met in the following categories:
  - Effectiveness and efficiency
  - Reliability of financial reporting
  - Compliance with laws and regulations
  - Safeguarding of assets
- Internal control serves as the first line of defense in safeguarding assets (including public funds) and preventing and detecting errors and fraud.
- Internal control helps managers achieve program results through effective stewardship of public resources.

# Responsibility for Internal Control

Who is responsible for internal control?

Management is responsible for the following, with regard to internal controls

- designing,
- implementing,
- reviewing, and
- improving.



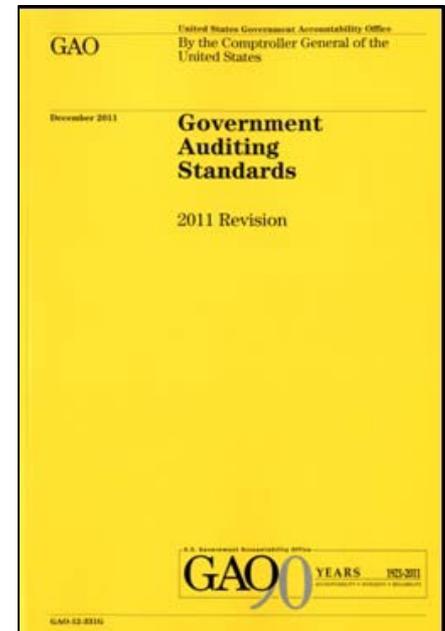
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# The Yellow Book: Framework for Audits

Findings are composed of

- Condition (What is)
- **Criteria (What should be)**
- Cause
- Effect (Result)
- Recommendation (as applicable)

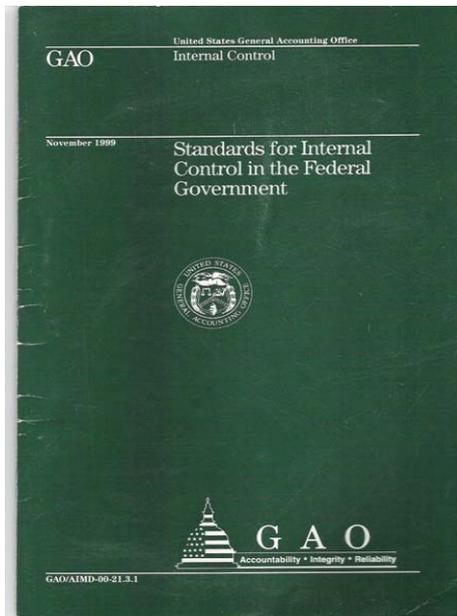


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# Linkage Between Criteria (Yellow Book) and Internal Control (Green Book)

Green Book provides criteria for the design, implementation, and operating effectiveness of an effective internal control system



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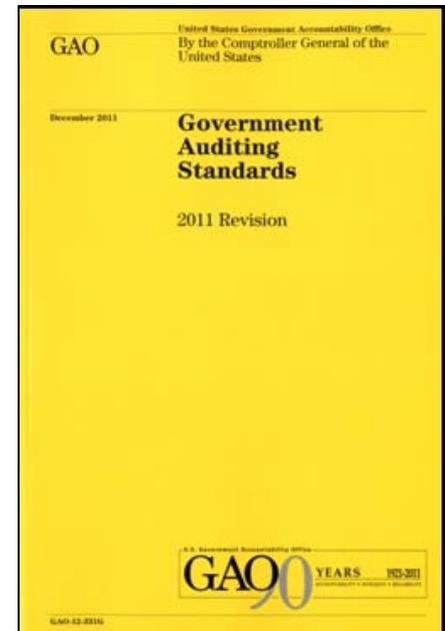
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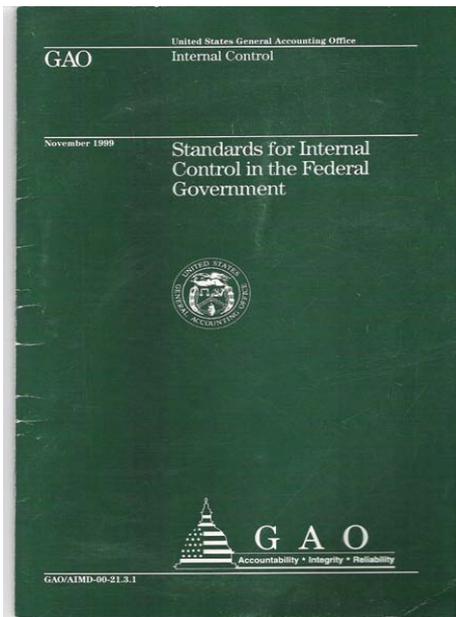
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# Linkage Between Findings (Yellow Book) and Internal Control (Green Book)

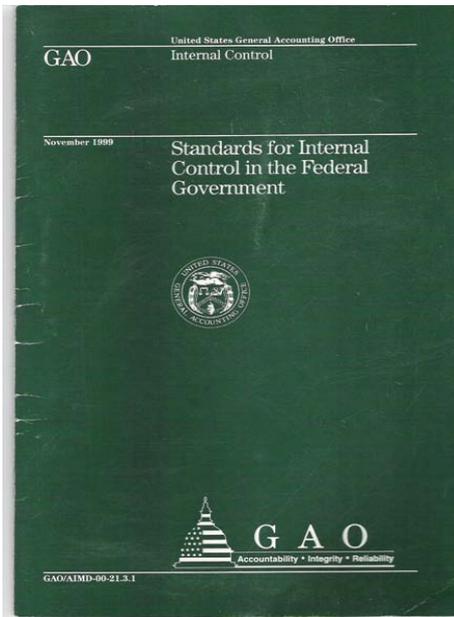
Findings may have causes that relate to internal control deficiencies



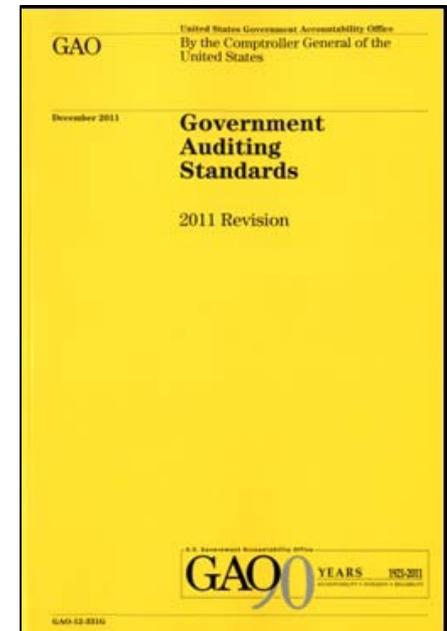
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# Green Book and Yellow Book



- Can be used by management to understand requirements
- Can be used by auditors to understand criteria



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# What Are the Five Standards for Internal Control?

The five standards for internal control are

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communications
- Monitoring

# Control Environment

**Control Environment** sets the tone of an organization, influencing staff awareness of good controls, procedures, accountability, and program management. It is the foundation for all other components of internal control, providing discipline and structure.

## Red Flags

- The agency or program has recently undergone major change—e.g., new responsibilities, reorganization, cuts in funding, expansion of programs, changes in management.
- Employees are generally disgruntled.
- Top management is unaware of actions taken at the lower level of the organization.
- The organizational structure is inefficient or dysfunctional.



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# Risk Assessment

**Risk Assessment** is the identification and analysis of relevant risks associated with achieving program or agency objectives, such as those defined in strategic and annual performance plans, and forming a basis for determining how risks should be managed.

## Red Flags

- The agency or program does not have well-defined objectives. (If the agency does not know what it is trying to accomplish, it will not be able to adequately assess risks).
- The agency or program does not have adequate performance measures. (If you don't know how to measure success or whether the program is successful, you will not be able to adequately assess risks).
- The agency or program does not have an adequate strategic plan.

# Control Activities

**Control Activities** are the policies and procedures established to achieve the entity's objectives. They help ensure that management's directives are carried out in daily program operations.

## Red Flags

- Agency or program is understaffed and/or workload has drastically increased, and staff are having difficulties handling operational workload.
- There have been previous issues with fraud, waste, or abuse.
- Employees are unaware of policies and procedures, but do things the way "they have always been done."
- Key documentation is often lacking or does not exist.



# Information and Communication

**Information and Communication** is needed by management and employees to monitor progress in meeting the organization's mission and objectives while maintaining proper accountability and internal control.

## Red Flags

- When top management needs information, there is a mad scramble to assemble the information, or the process is handled through ad hoc mechanisms (e.g., the information was not readily available).
- Staff are frustrated by requests for information because it is time-consuming and difficult to provide the information.
- Management does not have reasonable assurance that the information it is using is accurate.



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# Monitoring

**Monitoring** is accomplished through routine, ongoing activities, separate evaluations, or both. Internal control systems should be monitored to assess their effectiveness and to modify procedures as appropriate based on results of the monitoring activities (feedback).

## Red Flags

- Previous audit findings are not being resolved adequately or timely.
- Significant problems exist in controls and management was not aware of those problems until a big problem occurred; or until another outside party brought it to their attention (e.g., a recipient of funding, or an external audit).



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# Where to Find the Green Book

Once exposed, the Green Book will be on GAO's website at:  
[www.gao.gov](http://www.gao.gov)

For technical assistance, contact GOA at: [greenbook@gao.gov](mailto:greenbook@gao.gov)



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# Questions or Comments



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