



THE LATEST ON SINGLE AUDITS AND THE COMPLIANCE SUPPLEMENT

**Monique Booker
SB & Company, LLC
October 25, 2019**



WHAT WE WILL COVER:

- 2019 OMB *Compliance Supplement*
- Other Single Audit Developments and Looking Forward



SUPPLEMENT SECTIONS & TITLES

Table of Contents (TOC)

Part 1, Background, Purpose and Applicability

Part 2, Matrix of Compliance Requirements

Part 3, Compliance Requirements

Part 4, Agency Program Requirements

Part 5, Clusters of Programs

Part 6, Internal Control

Part 7, Guidance for Auditing Programs Not Included in This Supplement

Appendix I, Federal Programs Excluded from the A-102 Common Rule and Portions of 2 CFR Part 200

Appendix II, Federal Agency Codification of Governmentwide Requirements and Guidance for Grants and Cooperative Agreements

Appendix III, Federal Agency Single Audit, Key Management Liaison, and Program Contacts

Appendix IV, Internal Reference Tables

Appendix V, List of Changes for the 2019 Compliance Supplement

Appendix VI, Program-Specific Audit Guides

Appendix VII, Other Audit Advisories

Appendix VIII, Examinations of EBT Service Organizations

Appendix IX, Compliance Supplement Core Team



2019 SUPPLEMENT
BACKGROUND, EFFECTIVE DATE,
BREAKING NEWS



2019 SUPPLEMENT BACKGROUND & EFFECTIVE DATE

Issued July 1, 2019



- One stand-alone document for 2019
- Significantly more extensive changes than recent prior years
- Effective for audits of fiscal years beginning after June 30, 2018
- Supersedes the 2018 “skinny” Supplement (which required use of the 2018 and 2017 Supplements together for single audits beginning after June 30, 2017)



2019 SUPPLEMENT BREAKING NEWS!



- Since the Supplement's release, a number of errors have been noted by AICPA and others
- [GAQC has issued a comment letter to OMB](#) detailing the errors, suggesting areas that need to be addressed in the near term, along with recommendations for the 2020 Supplement
- In September 2019, OMB issued a correction edition of the 2019 supplement.
- Will get into more detail on this later in presentation



ACCESSING THE 2019 SUPPLEMENT

- Available on OMB web site as a single pdf at:

<https://www.whitehouse.gov/omb/management/office-federal-financial-management/>

- GAQC has posted the 2019 Supplement, broken by section, and made it open to the public

www.aicpa.org/gaqc



Key Changes in the 2019 Supplement



2019 SUPPLEMENT, APPENDIX V

Look at Appendix V first thing!

- It identifies all changes at a high level
- Important roadmap
- Identifies specific programmatic changes by CFDA number
- Is longer and more detailed this year due to increased Supplement changes



2019 SUPPLEMENT SUMMARY OF 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





6-REQUIREMENT MANDATE OVERVIEW

OMB required agencies to limit compliance requirements subject to the compliance audit to 6 per program or cluster included in the 2019 Supplement.

- Exception: The R&D cluster is permitted to identify 7
- Some agencies have chosen less than 6 requirements (note that 6 is the limit but less is ok)

For “counting” purposes, the requirements relating to A. Activities Allowed and Unallowed, and B. Allowable Costs and Cost Principles, are counted as one requirement

Effort is intended to reduce recipient burden as part of [President’s Management Agenda](#)



6-REQUIREMENT MANDATE OVERVIEW (CONTINUED)

Relates to the 200+ programs in the Supplement

- The vast majority of program lines have been changed
- Review of Part 2 matrix is critical to identify requirement changes



6-REQUIREMENT MANDATE

PROGRAMS NOT INCLUDED IN THE SUPPLEMENT

- The 6-requirement mandate does not apply to programs not included in the Supplement.
- Auditors continue to use Part 7 guidance to identify the types of compliance requirements to test.
- As a result, the auditor may test more than 6 requirements for these programs.



6-REQUIREMENT MANDATE PART 2 MATRIX

Old

Y = Requirement applies to the program

N = Requirement normally does not apply to the program

New

Y = Requirement subject to audit for the program

N = Requirement not subject to audit for the program

- **What's the Difference?**
- **Under the 6-requirement mandate you can have D&M compliance requirements noted with a "N"**
- **They are not subject to the compliance audit**



6-REQUIREMENT MANDATE

ELABORATION ON “Y” RESPONSIBILITY

- For “Y” matrix entries, auditors still determine whether those requirements could have a D&M effect for their client’s situation.
 - If auditor determines that a “Y” requirement will not be tested as part of the compliance audit because it is not D&M, auditors still have to document the related rationale for not testing
 - That is, N/A is still not an appropriate way to document why a requirement subject to audit is not being tested

PART 2 MATRIX LEGEND

June 2019

Matrix of Compliance Requirements

Legend to Matrix

Legend: Y - Yes, this type of compliance requirement is subject to audit for the Federal program; N - No, this type of compliance requirement is not subject to audit for the Federal program. **Those requirements that were changed from a “Y” to a “N” or from a “N” to a “Y” since the last Supplement are shown in bold (and highlighted in yellow) in the A-N matrix columns.** Note, Requirements D and K are reserved and therefore not shown in this chart.

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
Program Number	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
10.000	Y	Y	Y	N	Y	N	N	N	Y	Y	N	Y
10.500	Y	Y	N	N	N	Y	Y	N	N	Y	Y	N
10.511 (new program)	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.512 (new program)	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.514 (new program)	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.515 (new program)	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.516 (new program)	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.517 (new program)	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N



6-REQUIREMENT MANDATE

EFFECT ON PART 1

- Safe harbor language changed to:
 - Replace concept of “applicable” and “normally not applicable” with “subject to audit” and “not subject to audit”
 - Include a reminder about compliance responsibilities under GAAS and Yellow Book
- Clarifies that responsibilities run to provisions of federal awards or compliance requirements identified as subject to audit



6-REQUIREMENT MANDATE

OTHER CONSIDERATIONS

- Due to changes in the Part 2 matrix, some requirements you have historically tested together may not be done that way in the future.
 - For example, if Reporting is a “Y” and Cash Management a “N,” your approach will change if you previously combined some aspects of testing these together in the past.
- State and other PTE subrecipient monitoring activities may have to be enhanced.
- Important to remember that the auditor always has to consider whether noncompliance with a federal program requirement would have an effect on the financial statements.



EXAMPLE #1 HIGHWAY SAFETY CLUSTER

Facts: Using the risk-based approach, an auditor has determined the Highway Safety Cluster is a major program (CFDAs 20.600, 20.601, 20.602, 20.609, 20.610, 20.611, 20.612, 20.613, 20.616)

Step 1: Identify the compliance requirements in the Part 2 Matrix with a “Y” subject to the audit which are as follows:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Performance
- L. Reporting

**Per Draft Part 2
Matrix, DOT
Removed
Subrecipient
Monitoring**



EXAMPLE #1 HIGHWAY SAFETY CLUSTER

Step 2: Determine and document which of the requirements that have been identified as subject to the audit (noted with a “Y” in the matrix) could have a D&M effect on the major programs just as have always done

Question: In testing this program in past years, we have always tested Subrecipient Monitoring because it was an applicable and D&M requirement. What now??





EXAMPLE #2 WIOA CLUSTER

Facts: Using the risk-based approach, an auditor has determined the Workforce Innovation and Opportunity Act (WIOA) Cluster is a major program (CFDAs 17.258, 17.259, 17.278)

Step 1: Identify the compliance requirements in the Part 2 Matrix with a “Y” subject to the audit which are as follows:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- E. Eligibility
- G. Matching, Level of Effort, Earmarking
- H. Period of Performance
- L. Reporting
- M. Subrecipient Monitoring

**Per draft Part 2 Matrix, DOL removed:
Cash Management
Equipment/RP
Procurement/S&D
Program Income**



EXAMPLE #2 WIOA CLUSTER

Step 2: Determine and document which of the requirements that have been identified as subject to the audit (noted with a “Y” in the matrix) could have a D&M effect on the major programs just as have always done

Question: We audited this cluster as a major program in the prior year and had 6 findings, several of which related to Procurement and Suspension and Debarment and Cash Management. Both of these requirements are now noted with an “N” in the 2019 Part 2 matrix.

What is our responsibility for testing these requirements in the current year?





6-REQUIREMENT MANDATE

A WORD ON AUDITEE BURDEN RELIEF

- Auditees are still required to comply with all applicable regulations

- While auditees may experience some relief in preparing for the audit, facts and circumstances will dictate the level of relief



6-REQUIREMENT MANDATE

A WORD ON AUDITEE BURDEN RELIEF

Facts and circumstances of each program/auditee will dictate whether audit effort decreases such as:

- Which and how many D&M compliance requirements have been changed to an “N” in the matrix and how much effort they involved in the past
- Whether some requirements were transferred over to Special Tests and Provisions
- Number of programs not included in the Supplement



6-REQUIREMENT MANDATE

A WORD ON AUDITEE BURDEN RELIEF

- GAQC consulted with representatives of the AICPA auditing standards team as to whether auditor reports for 2019 single audits would need to be revised due to revised definitions of “Y” and “N” in the matrix
- Current thinking is that no revisions will be needed
- Currently working on several nonauthoritative Technical Questions and Answers

Will explain rationale for not changing the reports

Will emphasize that the auditor always has the option of including an other matter paragraph





2019 SUPPLEMENT – PART 3

PROCUREMENT REMINDER

- Grace period has ended so UG sections 200.317 to 200.326 now apply to auditees
 - December 31st year ends - effective for auditees at 1/1/2018
 - June 30th year ends - effective for auditees at 7/1/2018
 - September 30th year ends - effective for auditees at 10/1/2018
- Because there are so many June 30th year-ends, many auditors may be testing procurement under the new rules for the first time this year
- You will be using section 3.2.I, “Procurement and Suspension and Debarment” for testing procurement under the newly effective rules

The logo in the top left corner features a stylized tree with a circular emblem containing the letters 'SBO' above it.

PROCUREMENT STANDARDS 200.317-326

The procurement standards are generally based on the requirements in A-102 for states, local governments and Indian tribes, with modifications

- States use their own policies and procedures
- All other non-Federal entities, including sub recipients of a state, must have and follow written procurement procedures that comply with the Federal procurement standards



GENERAL PROCUREMENT REQUIREMENTS

- The Non-Federal entity **must** maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of the contract or purchase order
- How the non-Federal entity maintains oversight is a matter of judgment for the non-Federal entity



PROCUREMENT: STANDARDS OF CONDUCT (CONTINUED)

- The non-Federal entity's procedures must avoid acquisition of unnecessary or duplicative items
- Non-Federal entities are encouraged to enter into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services
- The non-Federal entity is encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property when this is feasible and reduces project costs



METHODS OF PROCUREMENT

- Methods of procurement to be followed
- Non-Federal entity must use one of the 5 methods:
 - Micro-purchases for acquisition of supplies or services if aggregate amount does not exceed \$10,000 [**New method**]
 - Micro-purchase may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable
 - Small purchase procedures - <\$250,000
 - Sealed bids (formal advertising)
 - Preferred method for procuring construction
 - UG outlined detailed requirements
 - Solicited from adequate # of known suppliers
 - Publicly advertised
 - Invitation to bids and opening the bid



METHODS OF PROCUREMENT

Non-Federal entity must use one of the 5 methods:

- Competitive proposals
- Expanded competitive procedures from OMB Circular A-110
- UG outlined detailed requirements
 - Requirement for RFP's (publicized, identify all evaluation factors, etc.)
 - Adequate # of qualified sources
 - Written method for conducting technical evaluations and for selecting recipients
 - Qualifications-based procurement (Architectural/Engineering professional services)



Methods of Procurement (Continued)

Noncompetitive proposals – revised to clarify that solicitation of a proposal from only one source may be used only when one or more of the following apply:

- The item is available only from a single source
- The public emergency for the requirement will not permit a delay resulting from competitive solicitation
- The Federal awarding agency (or pass-through entity) expressly authorizes this method in response to a written request from the non-Federal entity
- After solicitation of a number of sources, competition is determined inadequate

*OLD - Under A-110 - justification for lack of competition
in procurement > small purchase threshold*



Part 4 – Programmatic Changes

- Programs added and deleted as usual each year
- Matrices in program/clusters have been modified due to 6-requirement mandate
- Requirement sections noted with an “N” removed from program/cluster sections
- More programs than usual have significant changes; examples include:
 - USDA programs
 - Medicaid
- Many programs added new sections to Reporting to add performance reports and special reports



Part 5 – 2019 Supplement

2019 Supplement updated the following sections:

- R&D
- SFA Cluster - regulatory and other updates (see next slides)
- Other Clusters



SFA Cluster

Many more changes than usual due to regulatory and other updates

- Sampling tables added
- Perkins retained in cluster
- In various compliance areas, ED programs separated out from HHS programs in the procedures section
- Other changes

ED is not mandating that SFA needs to be an automatic major program

- ED working on a memorandum that will support that there is no need to contact school participation division if it will not be a major program



SFA New Objectives/Procedures for GLBA (*Student Information Security*)

Determine whether the institution designated an individual to coordinate the information security program, performed a risk assessment that addresses the three areas noted in 16 CFR 314.4 (b), and documented safeguards for identified risks.

1. Verify that the institution has performed a risk assessment that addresses the three areas required by 16 CFR 314.4 (b)
2. Verify that the institution has documented a safeguard for each risk identified from step b above.
3. Verify that the institution has designated an individual to coordinate the information security program.



Part 6 - 2019 Supplement

- Part 6 significantly updated in the 2019 Supplement
- GAQC worked closely with OMB and the agencies to enhance Part 6
- Objective is to more closely align Part 6 with how auditors consider I/C and provide more illustrative controls



Part 6 - 2019 Supplement

- Summary of requirements for internal control under the UG
- Background discussion on important internal control concepts
- Appendices that include illustrations of:
 - Entity-wide internal controls over federal awards
 - Internal controls specific to each type of compliance requirement



Part 6 - 2019 Supplement

Appendix 1 - Illustrative entity-wide controls over compliance for the following components of I/C: control environment, risk assessment, information and communication, and monitoring

- For this purpose, entity-wide controls are considered governance controls that apply to most, if not all, types of compliance requirements for one or more Federal programs

Appendix 2 - Provides illustrative specific controls for control activities, the remaining component of I/C

- For this purpose, specific controls are considered operational-level controls that apply to individual types of compliance requirements



Part 7 - 2019 Supplement

No significant changes

Use Part 7 to help identify compliance requirements and to develop your audit approach/program

- What are the program objectives, program procedures, and compliance requirements for a specific program?
- Which of the compliance requirements could have a direct and material effect on the program?
- Which of the compliance requirements are susceptible to testing by the auditor?
- Into which of the 12 types of compliance requirements does each compliance requirement fall?
- For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?



Appendix VII - 2019 Supplement

Already discussed NDAA addendum in earlier part

New sampling section

- Added due to concerns by some agencies about sampling quality issues
- Reminds auditors that AU-C 530, *Audit Sampling*, contains requirements and guidance
- Refers auditors to AICPA GAS-SA Guide for guidance
- States that fail to follow the standards, including the requirement to determine sample sizes that are sufficient to reduce sampling risk to an acceptably low level, may result in the audit being considered nonconforming by the federal cognizant agency for audit as part of a quality control review



Appendix VII - 2019 Supplement

Reminder - don't forget about other guidance in Appendix VII

- Hurricane waiver guidance
- Effect of changes to compliance requirements and other clusters
- Due date for submission of audit reports and low-risk auditee criteria
- Guidance on treatment of NSF and NIH awards



**Other Single Audit
Developments
and
Looking Forward**



Errors Noted to Date In the 2019 Supplement

- Inconsistencies between the matrices in Part 2 and Part 4 for individual programs.
- Misidentification of programs identified as new or deleted.
- A single program is identified as a cluster.
- Questions and clarifications need addressing in the SFA cluster.
- There are several "other cluster" issues and questions.



Errors Noted to Date in the 2019 Supplement (continued)

- Certain programs in Part 4 include details for requirements identified as N and others do not include requirement details for requirements identified as Y.
- Cross-cutting section problems (e.g., discussing requirements that for some programs covered by the cross-cutting section are not subject to audit).
- Some federal agencies have identified requirements that have historically been direct and material to a program as not subject to audit which has led to questions about whether errors have been made.
- The illustrative controls in Part 6 contain errors that appear to have occurred when the original Excel file was converted to Word.

GAQC comment letter to OMB details the errors



GAO 2018 Yellow Book 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

2018 YB supersedes:

- 2011 YB
- 2005 GAO CPE Guidance
- 2014 GAO Peer Review Ratings Guidance

Early implementation is not permitted!



Single Audit – DCF / FAC Developments

- New Data Collection Form released in early June
- Effective for use for single audits with fiscal periods ending in 2019, 2020, and 2021
- Main changes are as follows:
 - The audit finding information currently required to be included in the DCF by auditors would be expanded to include the actual text of the audit finding
 - Auditees would be required to:
 - include the text of their corrective action plans
 - include the text of the notes to the schedule of expenditures of federal awards
- Tweaks to the auditee and auditor statements



Looking Forward Future Revision of the UG?

5-year review to be performed and is likely to address:

- Procurement
- Allowable costs issues due to implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
- Inconsistent terminology
- Conflicts within 2 CFR
- Statutes enacted since UG was issued such as:
 - [Presidential Executive Order on Buy American Hire American \(BAHA\)](#)
 - [Never Contract with the Enemy](#)





Looking Forward

Future Auditor Reporting Changes

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
- Issued April 2019
- Effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted
- Changes the form and content for all auditor's reports issued for audits of non-issuers



QUESTIONS?





Thank You



Monique Booker, Partner
SB & Company, LLC
10200 Grand Central Avenue, Suite 250
Owings, Mills, Maryland 21117
410-584-0060 (office)
410-584-0061 (fax)
mbooker@sbandcompany.com