



Improving the Quality of Single Audits and other Governmental Auditing Updates

Mid-Atlantic
Intergovernmental Audit
Forum

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What We Will Cover

- Recent GAO Yellow Book activities
- Implications of new standards and AICPA Guide update
- Top deficiencies noted in the federal study on single audit quality and status of initiatives to address deficiencies
- Implications of American Recovery and Reinvestment Act of 2009
- Other Governmental Activities and Updates
- Governmental Audit Quality Center update



Yellow Book Update



Technical Update - GAO

- July 2007 Revisions to Yellow Book
 - Supersedes the Jan. 2007 and 2003 revisions
 - For performance audits, the standards effective for audits beginning on or after January 1, 2008
 - For financial audits and attestation engagements, the standards effective for audits of periods beginning on or after January 1, 2008
 - AICPA Governmental Audit Quality Center (GAQC) has made illustrative Yellow Book audit reports available on the GAQC Web site at: <http://www.aicpa.org/GAQC> under the Resources tab (also available in the GAS/A133 Guide)
- Potential future revisions relating to independence and corresponding Q&A guidance



Changes of note...

- New chapter on ethical principles
- Enhanced and clarified the requirements for an audit organization's system of quality control by specifying the elements of quality that an organization's policies and procedures collectively address
- Added a requirement that external audit organizations make their most recent peer review report publicly available
- Updated GAGAS based on recent developments in financial auditing and internal control
- Increased transparency surrounding reporting on restated financial statements



What's Next?

- Re-look at independence guidance, including question and answer document
- Single audit activities
- Other



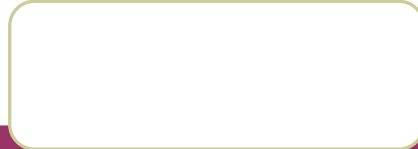
Where to Find the Yellow Book

The Yellow Book is available on GAO's Web site at:
www.gao.gov/govaud/ybk01.htm

For technical assistance, contact
yellowbook@gao.gov



Top Deficiencies Noted in the Federal Study on Audit Quality and Status of Related Initiatives



PCIE Study

- Objective
 - determine single audit quality
 - provide baseline for monitoring ongoing quality
 - recommend needed changes to the process or the Single Audit Act
- Study covered 208 out of ~ 38k single audits performed in 2002/03
 - 96 were from 852 entities expending Federal Awards of > or = \$50 million
 - 112 were from ~ 37k entities expending < \$50 million in Federal Awards



Report Findings and Recommendations

- Report issued June 2007 – Results disappointing but not surprising
 - Acceptable = 49% (93% of total \$s audited were in the acceptable bucket)
 - Unacceptable/limited reliability = 51% (7% of \$)
- Improvements needed in many areas
 - Internal control, compliance, documentation, sampling, due professional care
- 3 Recommendations
 - Improve standards/guidance
 - Establish more robust training and education
 - 16-24 hours of training as pre-requisite to performance
 - Ongoing CPE
 - Review and enhance process to address unacceptable audits – look at the enforcement process for efficiencies and effectiveness



For More Information

- Listen to the GAQC archived conference call “An Overview of the Results of the National Single Audit Sampling Project” under the GAQC Web site (www.aicpa.org/GAQC) Resource Tab
- Read the PCIE Report available at the following site: <http://ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>
- Read the October 25, 2007 testimony presented at a Senate hearing on Single Audit Quality <http://hsqac.senate.gov>



Top Single Audit Deficiencies

- Improvements needed in many areas including:
 - Internal Control: Lack of Understanding and Testing
 - Documentation Issues
 - Lack of Due Professional Care
 - Sampling
 - Compliance Testing Problems
 - Lack of Testing of SEFA
 - Unreported Findings
 - Material Reporting Errors



Internal Control: Lack of Understanding and Testing

- Lack of evidence of:
 - the auditor's understanding of the 5 elements of internal control (COSO) for each direct and material compliance requirement
 - testing of internal control for many or all applicable compliance requirements
 - internal control testing and/or compliance testing for more than a few compliance requirements, or did not explain why they were not applicable for the auditee



Documentation Issues

- Deficiencies in risk assessments of programs
 - required risk analyses were not documented
 - basis for the assessments of risk was not documented
 - documentation indicated that the risk assessment was not performed or not properly performed
 - not considering all programs, improper clustering programs, not clustering programs, mistakenly categorizing a program as Type A or B
 - risk assessment decision inconsistent with documentation



Documentation Issues

- Consideration of audit materiality at the major program level not documented
- Low-risk auditee determination not documented or incorrect
- Audit programs missing or inadequate
- Management representations related to federal awards missing or misdated



Lack of Due Professional Care

- Minimum percentage of coverage requirement not met
- Major program determination – 2-year lookback
- Error in threshold distinguishing Type A & B programs
- Material reporting errors (to be discussed later)



Sampling

- Insufficient sample sizes (nuclear sample)
- Lack of support for sample size
- Lack of documentation (e.g., completeness of population)
- Dual – purpose testing



Compliance Testing Problems

- Compliance testing not documented as performed (or N/A not explained)
- Part of a major program or major program cluster not tested
- Indications that current compliance requirements were not considered



Lack of Testing of SEFA

- Schedule of Expenditures of Federal Awards (SEFA):
 - audit documentation did not contain evidence that audit work relating to the SEFA was adequately performed
 - omission of required elements



Unreported Findings

- Audit documentation appeared to identify findings that ultimately were not reported (with no explanation why)
- Auditor did not report findings because the client corrected
- Management letter included unreported findings



Missing Information in Findings

Finding write-ups did not include all of the required elements (e.g., condition, cause, criteria, effect, etc.)
Report particularly cited that “cause” was missing in many findings



Material Reporting Errors

- Misreporting of audit coverage of major programs
- Required opinion on the SEFA was omitted
- Summary of auditor’s results section was missing information or included erroneous information



Initiatives to Address Deficiencies

- AICPA & GAQC Task Forces
- Federal Task Forces
- Congressional Interest
- GAO Study



AICPA Response

- Take seriously
- Established GAQC in 2004 (after study period)
- GAQC having positive impact
- 7 work streams to address broad and narrow issues in PCIE report
- Most will wrap work up in 2009

AICPA Task Forces

- Task Forces formed to examine the study's detailed findings and recommendations for the AICPA as follows:
 - Sampling/Materiality Issues In A Single Audit Environment
 - Internal Control And Compliance Responsibilities In A Single Audit Environment
 - Schedule Of Expenditures Federal Awards Reporting Issues
 - Reporting Audit Findings In A Single Audit
 - Single Audit Training Needs And Continuing Professional Education Evaluation
 - Peer Review
 - SAS 74 Revision

Sampling TF

- Assessing members' sampling policies to determine the diversity in sampling practices pertaining to testing internal controls and compliance
 - Assessment of sampling by compliance requirement
 - Population definition; exceptions; risks; etc.
- Decision to pursue attribute sampling for internal control testing and compliance testing
- Working to determine minimal sample sizes for low and high risk populations
- Ultimate outcome a new chapter in AICPA Audit Guide, *Government Auditing Standards and Circular A-133 (GAS/A133 Guide)* (perhaps in 2009)

Sampling – Practice Tips

- AICPA Sampling Guide
- Document rationale
- Properly identify the population
- Appropriate sample size

Internal Control and Compliance TF

- Evaluated PCIE findings
- Reviewed risk assessment suite of auditing standards in the context of compliance auditing
 - Made revisions to the 2008 GAS/A133 Guide to incorporate more discussion of auditor responsibility over internal control
 - Understand of each of the five elements of COSO for each direct and material compliance requirement for each major program
 - Test controls noted as key (not required to test all elements of COSO)
- Better documentation needed for assessment and testing
- Working on illustrative auditor documentation to address the issues noted in the PCIE report

I/C and Compliance Practice Tips

- Testing compliance gives **indirect** evidence on controls, but **cannot** serve as the basis for assessing controls as operating effectively
 - Controls: What did entity do to ensure compliance?
 - Compliance: Did entity comply?
- Ensure dual-purpose testing is properly documented
 - Properly identify compliance tests & controls tests
- Preliminary assessment of control risk
- Evaluate ineffective control
 - Use SAS 112/115 criteria & evaluation guidance
- Internal control must be continually reevaluated throughout the audit process
- Testing Internal Control
- Tickmark/Procedure Description for an Allowability Test

SEFA TF

- Evaluated the procedures required to issue an "in relation to" report under AU 551
- Reviewed the PCIE findings to determine the appropriate practice aids to assist auditors in avoiding such findings
 - Auditor tools developed (audit program and disclosure checklist)
 - Auditee tools developed (worksheet to accumulate and document federal award information and disclosure checklist)
- Clarifying guidance added to 2008 GAS/A133 Guide



SEFA Practice Tips

- Communicate with the clients who have difficulty in preparing the SEFA early in the planning process to try to avoid control deficiencies
- Document any control deficiencies identified during the audit and conclude whether they are required to be reported
- Document your procedures
- Make sure SEFA includes required elements
- If you are a GAQC member, listen to the archived Center call on the SEFA which can be found on the GAQC Web site under the Resources tab



Findings TF

- Discussed when audit findings must be reported
 - Determined that an audit tool in the form of a findings worksheet would help auditors document all elements of a finding and help evaluate finding to determine what is reportable
 - Decided to include in the audit tool SAS 112/115 considerations and to develop two worksheets (that is, one for single audit findings and one for Yellow Book financial statement findings)
 - Determined that illustrative findings of common deficiencies using the new audit tool would help auditors determine when and how to report findings
- Discussed current guidance on how to determine "likely questioned costs"
- Preparing illustrative findings template and illustrative findings



Findings Practice Tips

- Decision not to report documented exceptions
 - Disclose reasons & basis for that decision
 - Specifically address why it does not meet the reporting requirements
- Emphasis on questioned costs
- Development of illustrative examples & tools for "how to"
- Educate staff and partners about the importance of the Schedule of Findings and Questioned Costs (SFQC)
- Include a "cold" review as part of the reporting procedures to review the SFQC and major program work
- Start with a blank "pro forma" of the SFQC



Training TF

- Developed training curriculum and submitted to OMB for its consideration
- Comprehensive and identifies hours/topics as pre-requisite to performance of a single audit if you participate for the first time in certain capacities
 - Basic training for entry level staff
 - Intermediate training for in-charge
 - Advanced training for manager/partner
- Separate curriculum for on-going *annual* training by level
- Grandfathering



Training Practice Tips

- Ensure your single audit staff gets appropriate level single audit and Yellow Book training
- Review the PCIE report with special emphasis on the deficiencies noted
- As a team, review the Compliance Supplement
- Review any archived events on the GAQC website that are applicable to your audit engagements
- Ensure that Managers, Partners and "cold" reviewers on single audit engagements are appropriately trained
- Share update communications with your single audit staff (e.g., GAQC alerts and newsletters)



Peer Review

- The AICPA Peer Review Board established Task Force to develop ways in which the AICPA peer review process can aid in enhancing the quality and performance of Circular A-133 audits by member firms
- The Task Force recently met with various federal agencies that perform Quality Control Reviews (QCRs)
- The Task Force is currently determining its future actions, which may include the development of additional guidance and training materials for peer reviewers and members, as well as potential enhancements to the process of performing peer reviews.



Federal Agency Response

- Federal agency task forces and cooperation
- GAO study
 - Follow-up to PCIE, broader
 - Issued in April 2009; included 3 recommendation
 - Report titled, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, and can be found at:
<http://www.gao.gov/new.items/d09307r.pdf?source=ra>



GAO Recommendations

- Designate an entity or group to (1) evaluate and comprehensively monitor the single audit process government-wide, (2) assess the efficiency and effectiveness of how agencies carry out their single audit responsibilities, and (3) identify additional guidance and resources needed to carry out single audit requirements;
- Designate a federal workgroup to evaluate the current single audit process to identify simplified alternatives for meeting the accountability objectives of the Single Audit Act for the audits of small entities, while achieving the proper balance between risk and cost-effective accountability for the smallest to the largest entities; and
- Monitor the status of OMB workgroups, AICPA task forces, and NASBA referral project activities, and evaluate completed actions and their impact on addressing the PCIE report recommendations to improve single audit quality.



Implications of New Standards and AICPA Guide Update



Implications of Standards and Guide Update

- SAS 112/115
- SAS 74
- GAS/A133 Guide



Impact of SAS 115 on Yellow Book and Single Audits

- GAO has issued guidance
 - <http://www.gao.gov/govaud/icguidance0811.pdf>
- GAO guidance allows implementation during this busy season (actual standards to be updated later)
- Governmental Audit Quality Center (GAQC) issued updated Yellow Book report illustrations
- OMB has not changed definitions yet (should not update single audit reports for SAS 115 until such time that OMB issues guidance allowing it)
- GAQC working with OMB to expedite use of SAS 115 in single audit reports



AICPA

- SAS No. 74
 - AICPA TF established as a result of federal study on single audit quality
 - Overhaul underway in response to federal study on single audit quality (in new clarity format)
 - Will clarify auditor's responsibilities in a compliance audit performed under GAAS
 - Will state that all other auditing standards apply to compliance audits unless otherwise noted in the revised SAS
 - Exposure draft comments were due end of April 2009
 - Expected effective date June 30, 2010 year-ends

Proposed SAS, Compliance Audits

- Amends SAS 74 to provide additional auditing guidance when an audit of compliance is performed in connection with a GAAS and GAGAS audit of financial statements (i.e. OMB A-133 Audit).
- A Compliance examination performed when an audit is not required, would continue to be performed under AT 601

Proposed SAS, Compliance Audits

Specifically, the proposed SAS would revise AU sec 801 by

- clarifying its applicability,
- updating it for changes in the compliance audit environment,
- establishing a requirement for the auditor to adapt and apply GAAS, including the risk assessment and fraud standards (all of which primarily address audits of financial statements), to a compliance audit and providing guidance on how to do so,
- identifying the AU sections that are applicable to a compliance audit and those that are not applicable,
- defining terms related to a compliance audit,
- identifying auditor requirements that are unique to a compliance audit,
- providing guidance on the factors an auditor may consider in evaluating whether an entity has materially complied with the applicable compliance requirements,
- identifying the elements to be included in an auditor's report on compliance.

AICPA Audit Resources

- Auditing & Accounting Guides and Audit Risk Alerts
 - Government Auditing Standards and Circular A-133
 - State & Local Governments
 - Not for Profit Organizations
 - Health Care Organizations



AICPA

- Status of A&A Guides
 - GAS/A133 Guide
 - 2008 conforming changes issued
 - Incorporating new Yellow Book provisions
 - SAS 102 and other new SASs
 - Some clarifications relating to audit quality deficiencies (more to come in future years)
 - 2009 conforming changes due in fall 2009
 - Sampling chapter
 - Other single audit quality clarifications
 - SAS 74 revision – In appendix only
 - Stragglers "shoulds"

AICPA

- Status of A&A Guides
 - SLG Guide
 - 2008 conforming changes issued
 - SAS 102 and other new SASs
 - New GASBs
 - New SASs
 - 2009 conforming changes due in Spring
 - Stragglers "shoulds and musts"
 - New GASBs
 - New SASs

To Obtain Your Copy...

- To purchase AICPA products call AICPA Order Department at 888-777-7077 or check www.cpa2biz.com





Auditor Implications of American Recovery and Reinvestment Act of 2009



Auditor Perspective

- American Recovery and Reinvestment Act of 2009
 - Federal government funneling billions of dollars to state and local governments, much of which will be subject to single audit
 - Desire on part of administration for unprecedented oversight and transparency
 - Significant federal scrutiny of single audits performed on entities receiving Recovery Act money (primarily in 2010 – 2011 timeframe)
 - GAQC to be a resource both to its members and the federal agencies during this process



GAQC Recovery Act Resource Center

- New section on GAQC Web site for auditors dedicated to Recovery Act matters
 - <http://gaqc.aicpa.org/Resources/Recovery+Act+Resource+Center.htm>
- Archived GAQC member calls
 - Recovery Act call
 - Auditee call on preparing for a single audit
- Links to Recovery Act GAQC Alerts
- Links to GAQC Recovery Act tools
 - Nonauthoritative examples to illustrate the impact of the Recovery Act
 - Talking points for auditors to use with clients
- Much of the Resource Center is open to general public



Auditor Perspective

- Economic Recovery and Reinvestment Act of 2009
 - Some June 30, 2009, audits impacted; bigger impact likely on later 2009 year-ends and into 2010 and 2011
 - Accountability and Transparency
 - QCRs built into the OMB guidance – results to be placed on Recovery.gov
 - Single audit reporting to be made available on the Internet
 - Non-static *Compliance Supplement*
 - OMB Guidance issued on continual basis
 - Changes to major program determination process
 - Other changes
 - Watch GAQC communications for further updates and developments



OMB Guidance

- Recovery Act
 - Read the Initial Implementing Guidance at (issued February 18, 2009):
<http://www.recovery.gov/files/Initial%20Recovery%20Act%20Implementing%20Guidance.pdf>
 - Read the Follow-Up OMB Implementing Guidance at (issued April 3, 2009): <http://www.recovery.gov/sites/default/files/m09-15.pdf>
 - Implementing Guidance for the Reports on Use of Funds Pursuant to the Recovery Act (issued June 22, 2009):
http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21.pdf
 - Addendum to *Compliance Supplement* issued on August 5, 2009 that can be accessed at:
http://www.whitehouse.gov/omb/assets/a133_compliance/arra_addendum_1.pdf



Recovery Act Compliance Supplement Appendix

- **Auditors Should Be Alert for Recovery Act Awards.** Auditors should be alert to determine whether auditees (both recipients and subrecipients) have properly identified Recovery Act awards
- **Impact on CFDA Numbers.** Federal agencies are required to specifically identify Recovery Act awards, regardless of whether the funding is provided under a new or existing CFDA number
- **Cluster Guidance to be Updated Monthly.** OMB states that it will need to update the clustering guidance in Part 5 of the Supplement since many of the Recovery Act awards will have new CFDA numbers

Recovery Act Compliance Supplement Appendix

- **Major Program Determination.** The Appendix also describes the impact on major program determination in the following 2 scenarios:
 - **One CFDA number** used for both non-Recovery Act and Recovery Act funds. Higher risk in accordance with sections .525(c)(2) and .525(d) of OMB Circular A-133. When performing the risk-based approach under section .520(c)(1), Type A programs with expenditures of Recovery Act funds should **not** be considered low-risk except when the auditor determines, and clearly documents the reasons, that the expenditures of Recovery Act funds is low-risk for the program.
 - **New CFDA number** is used for the Recovery Act funds. The Recovery Act CFDA number should be considered a new program and the cluster would not qualify as a low-risk Type A program.
- GAQC Nonauthoritative illustrations available at: http://gaqc.aicpa.org/NR/rdonlyres/4563588E-6B23-4DA1-A621-36BB25029184/0/Handout_AARRA_Examples.pdf

Recovery Act Compliance Supplement Appendix

- **Auditors May Have to Use Multiple Sources to Determine Compliance Requirements**
 - Review the award documents, including the terms and conditions;
 - Check the **OMB Web site** for any addenda to the Supplement, and
 - Use the framework provided by the Supplement (e.g., in Parts 3, 4, 5, and 7) as guidance to identify Recovery Act compliance requirements material to the federal program and to determine the appropriate audit procedures.
- **Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (DCF) Need to Identify Recovery Act Expenditures Separately**
 - Federal agencies are including specific Recovery Act requirements in their terms and conditions for Recovery Act awards to ensure separate identification in both the SEFA and the DCF. This separate identification should also include the Research and Development cluster regardless of the accommodation made in section .310(b)(1) of Circular A-133.

Addendum #1 to Compliance Supplement

- Issued on August 5, 2009, and effective for June 30, 2009, Single Audits with Recovery Act expenditures
- Matrix of Compliance Requirements Updated
- Guidance Added for Certain Types of Compliance Requirements
- New Program Sections Added to Part 4
- Clusters Have Been Revised for Effect of Recovery Act Programs
- New General Guidance for Internal Control Added to Part 6
- Child Nutrition Cluster Revised
- See **GAQC Alert #118** on GAQC Recovery Act Resource Center (<http://gaqc.aicpa.org/Resources/Recovery+Act+Resource+Center.htm>) for more details

Message Points to Clients

- Need process for accepting Recovery Act funds (should be a conscious management decision); organization should be aware of Recovery Act compliance requirements
- Appoint Recovery Act "Czar" or Task Force
- Control procedures should be in place over federal expenditures are appropriate, working properly, and designed to prevent unallowable expenditures
- Controls and system requirements will be needed to ensure that Recovery Act funds are able to separately identified and tracked
- Are new controls needed to meet the stringent reporting requirements back to federal agencies?
- Are controls in place to ensure appropriate subrecipient monitoring and also whether any new controls will need to be established related to new subrecipient reporting responsibilities?
- Be prepared to report back on spending starting September 30, 2009 (review OMB guidance)

Other Governmental Activities and Updates

OMB Compliance Supplement

- 2009 **Compliance Supplement (CS)** issued in May and available at http://www.whitehouse.gov/omb/grants_circulars/
 - Appendix V lists changes – You should review in detail
 - Visit <http://gaqc.aicpa.org/Resources/OMB+Circular+A-133/OMB+Circular+A-133+2009+Compliance+Supplement.htm> for details on the programs that OMB had previously proposed adding, deleting, and significantly revising
 - Appendix VII covers common audit deficiencies from federal study on single audit quality
 - Impact of Recovery Act
 - As noted, 2009 CS includes an appendix (also Appendix VII) with high-level descriptions of Recovery Act requirements and instructions to auditors
 - Periodic updates expected thereafter

Compliance Supplement Practice Tips

- Bookmark the OMB site that catalogs the various years' Compliance Supplements
 - http://www.whitehouse.gov/omb/grants_circulars/
 - Understand your entity to make the proper modifications to the generic steps presented within the CS
- Refrain from using the CS as a checklist
- Use Part 2, Matrix of Compliance Requirements, appropriately
- Understand the various federal programs to determine whether modifications to the audit approach are necessary
- Part 4 cannot be used without Parts 2 and 3 and should not be your defacto audit program
- Become familiar with Part 6 on Internal Control
- Become familiar with Recovery Act Appendix and future addendums issued by OMB to the 2009 Supplement

Federal Audit Clearinghouse

- New Data Collection Form issued in August 2008
 - Intended to be used for audit periods ending in 2008, 2009, and 2010
 - Required electronic submission of form and reporting package starting with 2008
 - The previous form is being used for audit periods ending in 2004, 2005, 2006 and 2007

New DCF and Submission Process

- DCF includes internal control updates for significant deficiency
- Secondary Auditor information can be entered into new form for up to 12 additional auditors
- Reporting package can only be submitted electronically via IDES, no more paper submissions will be accepted
- Reporting package submission must be in one PDF file format (locked or unlocked)
- Paper submissions for fiscal year end between 2002 and 2007 will still be accepted by FAC
- Instructions for new electronic submission process are located at http://harvester.census.gov/fac/collect08/main_instruct.pdf

New DCF and Process Practice Tips

- No longer can access PDF of the actual DCF 2008 - 2010. Must use a worksheet available at <http://harvester.census.gov/fac/collect08/2008Worksheet.pdf>.
- Coordinate the electronic signature process early within your firm and with the client.
- Submission is not complete until both the client & auditor hit the "submit" button.
- GAQC members can access the archived member conference call on *The Revised 2008-2010 Data Collection Form & New Electronic Submission Process* at <http://gaqc.aicpa.org/Resources/The+New+DCF+and+Electronic+Submission.htm>.

Governmental Audit Quality Center Update and Other AICPA Assistance



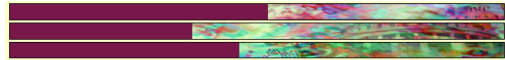
Who Should Consider Joining

- Auditors that perform not-for-profit organization or governmental audits (under the Yellow Book and/or single audit rules)
- Auditors that perform audits under federal audit guides (for example, HUD, Department of Education, etc.)
- Peer review firms that review these audits



GAQC Team

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Questions ?????

