

Common Audit Deficiencies in Governmental Audits

May 11, 2026

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About Your Instructor



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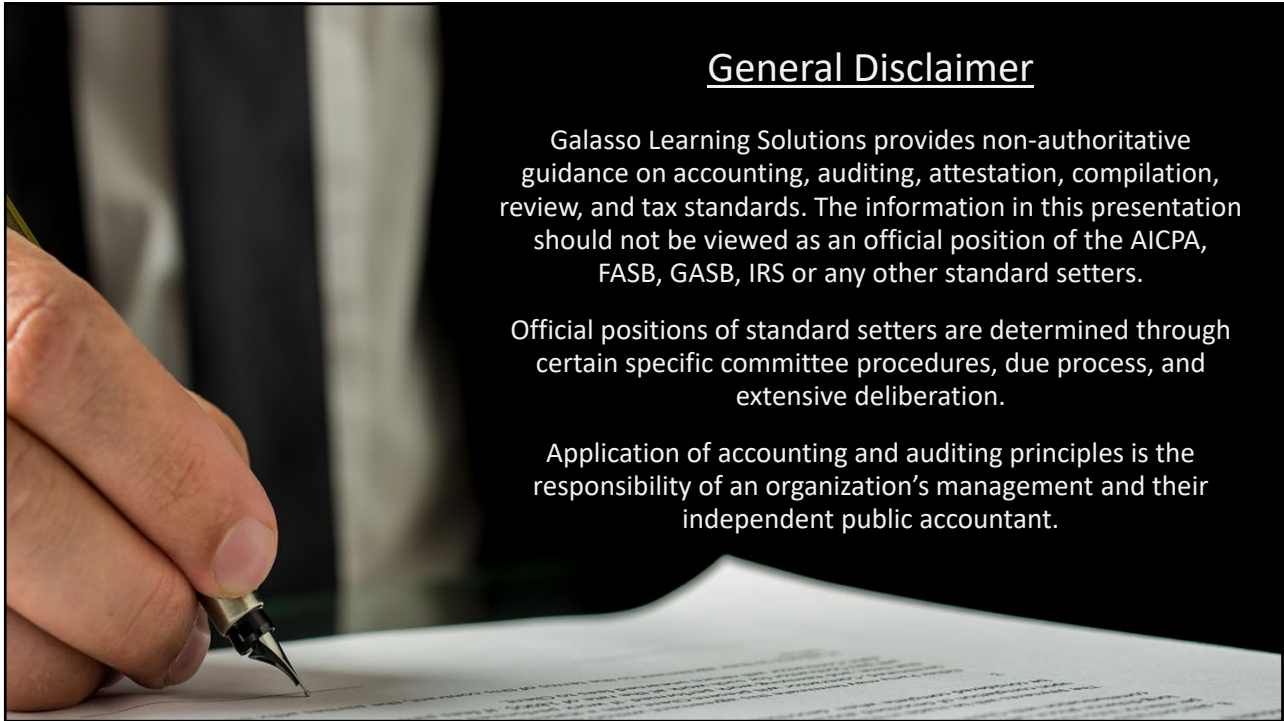
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Application of accounting and auditing principles is the responsibility of an organization's management and their independent public accountant.

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Agenda

Yellow Book Common Deficiencies

Yellow Book Independence

Single Audit Deficiencies



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Yellow Book Common Deficiencies



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CPE



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CPE

- Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should develop and maintain their professional competence by completing at least 80 hours of CPE in every 2-year period as follows

CPE hours	Subject matter categories of CPE
24 hours	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates
56 hours	Subject matter that directly enhance auditors' professional expertise to conduct engagements

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Exemptions

- Auditors may be exempted from the 56-hour CPE requirement by the audit organization, but not the 24-hour requirement, if they
 - Charge less than 20 percent of their time annually to engagements conducted in accordance with GAGAS; and
 - Are only involved in performing engagement procedures, but not involved in planning, directing, or reporting on the engagement

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Exemptions Cont'd

- The 20% may be based on historical or estimated charges in a year, provided that the audit organization has a basis for this determination and monitors actual time
- For auditors who change status such that they are charging more than 20% of their time annually to engagements under GAGAS, the audit organization may prorate the required CPE hours similar to when auditors are assigned to GAGAS engagements after the beginning of a 2-year CPE measurement period

Requirements

- Auditors should complete at least 20 hours of CPE in each year of the 2-year periods
- The audit organization should maintain documentation of each auditor's CPE

Exemptions Cont'd

- Nonsupervisory auditors who charge less than 40 hours annually to engagements conducted in accordance with GAGAS may be exempted by the organization from all CPE requirements
- The audit organization may exempt from the CPE requirements college and university students employed on a temporary basis for a limited period of time (for example, an internship of limited duration) or enrolled in a formal program sponsored by the college or university for a specific period of employment, such as a term or semester

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Exemptions Cont'd

- The audit organization, at its discretion, may grant exemptions from a portion of the CPE requirement if situations such as the following prevent auditors from fulfilling those requirements and conducting engagements:



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Exemptions Cont'd

- The audit organization may not grant exceptions for reasons such as workload, budget, or travel constraints

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Timing

- CPE used to fulfill the 24-hour requirement may be taken at any time during the 2-year measurement period

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Typically Don't Qualify



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Emergency CPE

- At their discretion, audit organizations may give auditors who have not completed the 80-hour CPE requirement for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency
- Audit organizations may also give auditors who have not completed the 20 hours of CPE in a 1-year period up to 2 months immediately following the 1-year period to make up the deficiency

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Emergency CPE Cont'd

- Any CPE hours completed toward a deficiency in one period may be documented in the CPE records and may not be counted toward the requirements for the next period
- Audit organizations that grant the 2- month grace period may not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements until those requirements are satisfied

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No Carry Over

- Auditors may not carry over CPE hours earned in excess of the 80- hour and 24-hour requirements from one 2-year CPE measurement period to the next

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Two Year Period

- To simplify administration of the CPE requirements, an audit organization may establish a standard 2-year period for all of its auditors, which can be on either a fixed-year or rolling-year basis

Two Year Period Cont'd

- An audit organization may use a measurement date other than the date it started its first GAGAS engagement, or the audit organization may choose to change its measurement date to coincide with a fiscal year or another reporting requirement, such as one established by a state licensing body or professional organization

Yellow Book Reporting



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Additional Reporting Requirements

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Reporting auditors' compliance with GAGAS

Reporting on internal control; Compliance with provisions of laws, regulations, contracts, and grant agreements; and instances of fraud

Presenting audit findings

Reporting findings directly to parties outside the audited entity

Obtaining and reporting the views of responsible officials

Reporting confidential or sensitive information

Distributing reports

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FS Report

- In addition to the AICPA requirements for reporting, auditors should comply with additional requirements when citing GAGAS in their reports

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FS Report Cont'd

- When auditors comply with all applicable GAGAS requirements for financial audits, they should include a statement in the auditors' report that they performed the audit in accordance with GAGAS

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AU-C 725 Paragraph

- If YB Report is separate, include a paragraph in the auditors' report on the FS that states they are issuing additional reports
 - State report is an integral part of a GAGAS audit in considering the audited entity's internal control over financial reporting and compliance

Yellow Book Report

- When opining on financial statements, auditors should also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements
 - Whether or not they identify internal control deficiencies or instances of noncompliance

Reporting on Internal Control

- Requires reporting on ICFR
- Findings
 - Significant deficiencies and material weaknesses in internal control

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Reporting on ICFR

Yellow Book

- In a written report on internal control over financial reporting
- Every audit

AU-C Section 265

- In a written communication to management and those charged with governance
- Only when significant deficiencies or material weaknesses are identified

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Reporting Compliance

- Compliance with Provisions of Laws, Regulations, **Contracts, and Grant Agreements**
 - In addition to AU-C 250
- Finding
 - Noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a **material effect on the financial statements** or other financial data significant to the audit objectives

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Fraud

- Fraud that is material, either quantitatively or qualitatively, to the financial statements or other financial data significant to the audit objectives

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Common Confusion



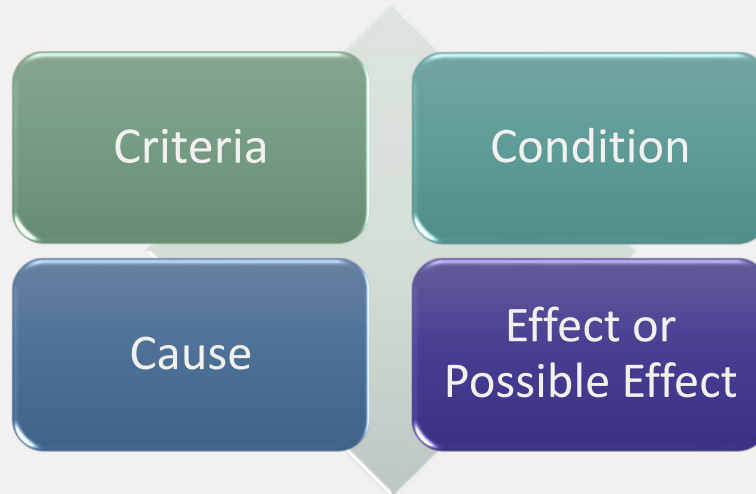
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Presenting Findings

- Develop the elements of the findings to the extent necessary to assist management or oversight officials of the audited entity in understanding the need for corrective action

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Required Elements of a Finding



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Presenting Findings Cont'd

- Perspective
 - Place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding
 - To give the reader a basis for judging the prevalence and consequences of these findings, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures
 - If the results cannot be projected, auditors should limit their conclusions appropriately

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Reporting Findings

- Auditors should report findings directly to parties outside the audited entity when:
 - Audited entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation
 - When audited entity management fails to take timely and appropriate steps to respond to fraud or noncompliance that is likely to have a material effect on the subject matter and involves funding received directly or indirectly from a government agency

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Views of Responsible Officials

- Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations in the audit report, as well as any planned corrective actions

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Reporting Confidential & Sensitive Information

Prohibitions
on public
disclosure

Confidential
or sensitive
information

Classified
information

Public safety,
privacy or
security
concerns

Broad public
interest

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Yellow Book Independence



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Independence

- Independence comprises the following:

Independence of Mind:

- The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism

Independence in Appearance:

- The absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised

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Benchmark

- Auditors and audit organizations should avoid situations that could lead **reasonable and informed third parties** to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work

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Conceptual Framework

- Identify threats to independence
- Evaluate the significance of the threats identified, both individually and in the aggregate
- Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level

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Threats



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Not Acceptable

- A threat to independence is not at an acceptable level if it either:
 - Could affect the auditors' ability to conduct an engagement without being affected by influences that compromise professional judgment; or
 - Could expose the auditors or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit organization, or an auditor, had been compromised

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Safeguards

- When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level



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Safeguards Cont'd

- Safeguards are actions or other measures, individually or in combination, that auditors and audit organizations take that effectively eliminate threats to independence or reduce them to an acceptable level
 - Safeguards vary depending on the facts and circumstances



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Examples

- Consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor to discuss engagement issues or assess issues that are highly technical or that require significant judgment
- Involving another audit organization to perform or re-perform part of the engagement
- Having an auditor who was not a member of the engagement team review the work performed
- Removing an auditor from an engagement team when that auditor's financial or other interests or relationships pose a threat to independence

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Multiple Safeguards

- Multiple safeguards may be necessary to address a threat



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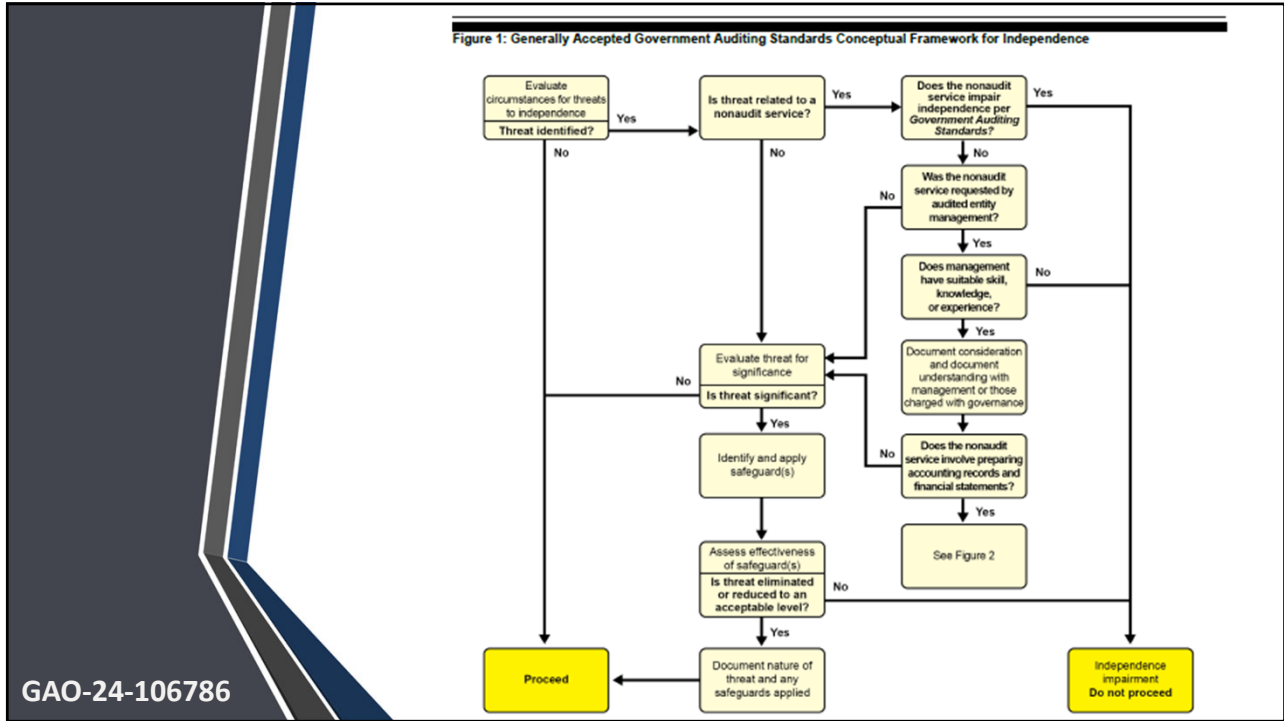
Documentation

- Auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level

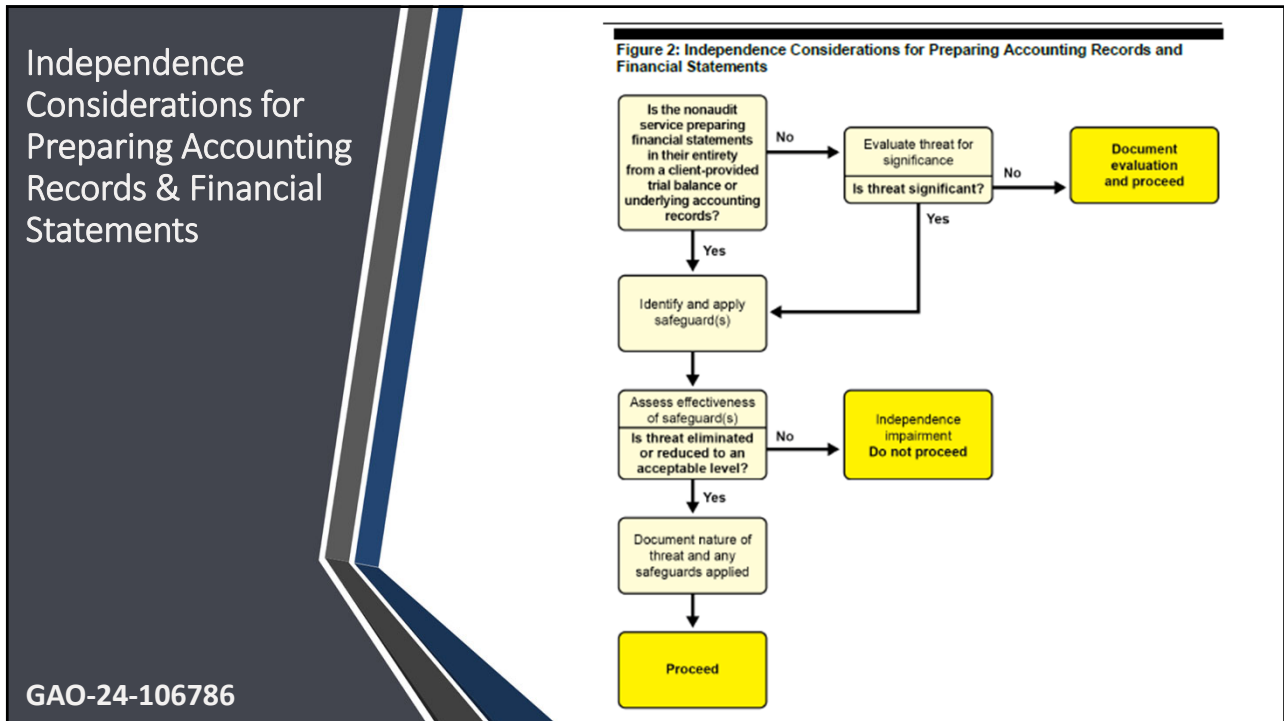


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Nonaudit Services



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Nonaudit Services

- Providing nonaudit services to audited entities may create threats to the independence of auditors or audit organizations

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Potential Safeguards

- Not including individuals who provided the nonaudit service as engagement team members
- Having another auditor, not associated with the engagement, review the engagement and nonaudit work as appropriate
- Engaging another audit organization to evaluate the results of the nonaudit service
- Having another audit organization re-perform the nonaudit service to the extent necessary to enable that other organization to take responsibility for the service



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Routine Activities

- Routine activities that auditors perform related directly to conducting an engagement, such as providing advice and responding to questions as part of an engagement, are not considered nonaudit services under GAGAS
- Such routine activities generally involve providing advice or assistance to the audited entity on an informal basis as part of an engagement
 - Typically are insignificant in terms of time incurred or resources expended and do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product



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Examples of Routine

- Providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit
- Providing advice to the audited entity on routine business matters
- Educating the audited entity about matters within the technical expertise of the auditors
- Providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies

Not Routine

- Activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations are considered nonaudit services under GAGAS, not routine activities

SKE

- Auditors should determine that the audited entity has designated an individual who possesses suitable **skill, knowledge, or experience** and that the individual understands the services to be provided sufficiently to **oversee** them

Oversee

- Indicators of management's ability to effectively oversee the nonaudit service include management's ability to determine the reasonableness of the results of the nonaudit services provided and to **recognize a material error, omission, or misstatement in the results of the nonaudit services provided**

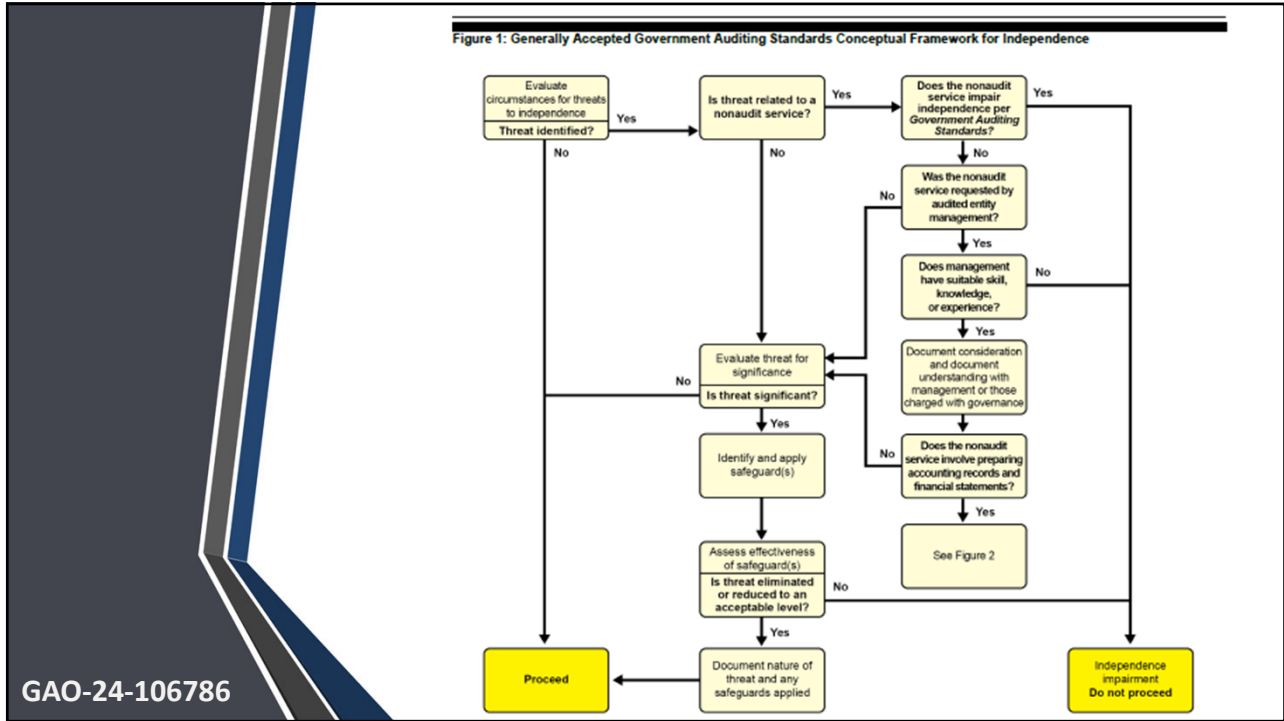
Impact of Lack of SKE

- In cases where the audited entity is unable or unwilling to assume these responsibilities, auditors should conclude that the provision of these services is an impairment to independence

Documentation

- Auditors should document consideration of management's ability to effectively oversee nonaudit services to be provided





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Preparing Accounting Records and Financials

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Impair Independence

- Determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval
- Authorizing or approving the entity's transactions
- Preparing or making changes to source documents without management approval

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Significant Threats

- Preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates **significant threats** to auditors' independence



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Threats to Independence

- Recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger
- Preparing certain line items or sections of the financial statements based on information in the trial balance
- Posting entries that an audited entity's management has approved to the entity's trial balance
- Preparing account reconciliations that identify reconciling items for the audited entity management's evaluation

Evaluate Threats

Factors relevant in evaluating the significance of threats

- The extent to which the outcome of the service could have a material effect on the financial statements
- The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements
- The extent of the audited entity's involvement in determining significant matters of judgment

Unlikely to be Significant

- Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat



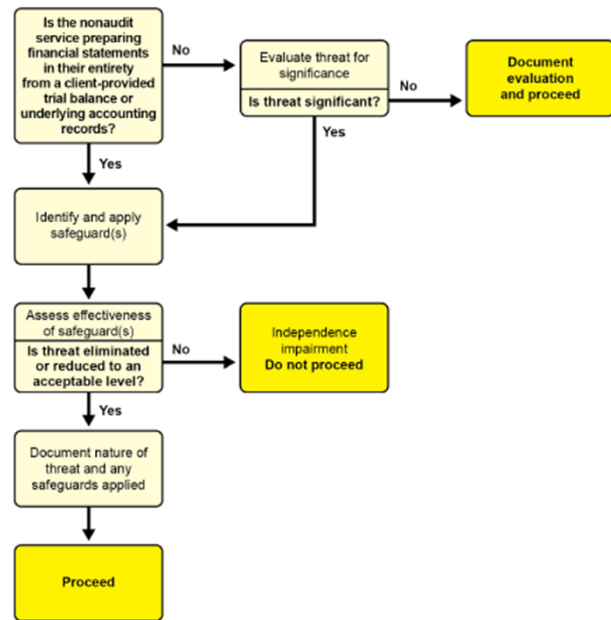
Preparation

- Management is responsible for the preparation and fair presentation of the financial statements, even if the auditor assisted in drafting those financial statements
- An auditor accepting responsibility for the preparation and fair presentation of financial statements that the auditor will subsequently audit or that will otherwise be the subject matter of an engagement would impair the auditor's independence

Independence Considerations for Preparing Accounting Records & Financial Statements

GAO-24-106786

Figure 2: Independence Considerations for Preparing Accounting Records and Financial Statements



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Documentation



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Documentation Requirements

- Threats to independence that require the application of safeguards, along with safeguards applied
- Safeguards if an audit organization is structurally located within a government entity and is considered structurally independent based on those safeguards;
- Consideration of audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor
- The auditor's understanding with an audited entity for which the auditor will provide a nonaudit service
- The evaluation of the significance of threats

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Documentation

- Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements

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Single Audit Deficiencies



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Internal Controls Over Compliance



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Common Deficiencies

- Mistaking ICFR for ICOC
- Calling the test dual purpose but only testing compliance
- Not linking the control to a specific risk
- Not differentiating elements in a single compliance requirement that has multiple

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ICOC Assessment

- What is Internal Controls over Compliance?
 - A process—effected by an entity’s management and other personnel—designed to provide reasonable assurance regarding the achievement of the objectives for federal programs

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Objective #1

- Transactions are properly recorded and accounted for to:
 - Permit the preparation of reliable financial statements and federal reports
 - Maintain accountability over assets
 - Demonstrate compliance with laws, regulations, and other compliance requirements

Objective #2

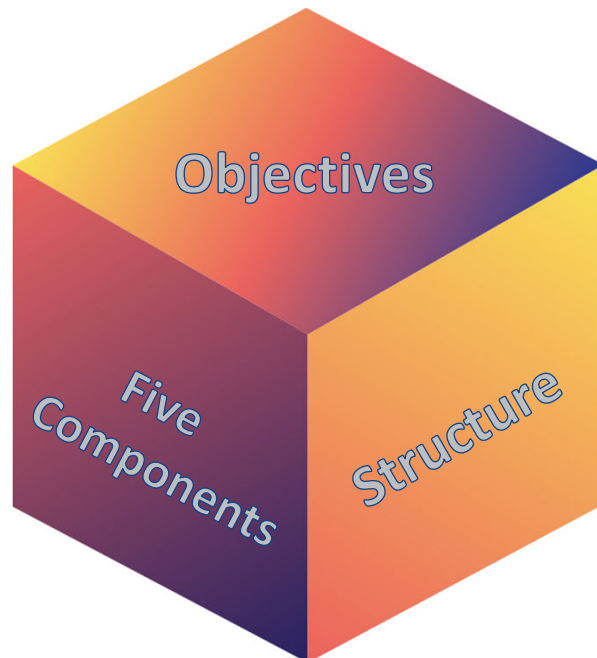
- Transactions are executed in compliance with:
 - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program; and
 - Any other laws and regulations that are identified in the compliance supplement

Objective #3

- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition

COSO Cube

- Objectives
- Components
- Organizational Structure



What is a Control?

- Process
 - Procedures that originate, transfer or change data
 - Can introduce errors
 - Example: Employees complete their timesheets
- Controls
 - Procedures designed to prevent, detect and correct errors resulting from processing of accounting information
 - Cannot generate errors
 - Example: Project manager approves timesheets

Design

- Perform risk assessment procedures to obtain an understanding of the entity's internal control over compliance which includes an evaluation of the design of controls and whether the controls have been implemented

COSO Components – Adapted

Control Environment

- The foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control.
- It influences how objectives are defined and how control activities are structured
- The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control

COSO Components – Adapted Cont'd

Risk Assessment

- Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives
- This assessment provides the basis for developing appropriate risk responses
- Management assesses the risks the entity faces from both external and internal sources

COSO Components – Adapted Cont'd

Information & Communication Systems

- Management uses quality information to support the internal control system
- Effective information and communication are vital for an entity to achieve its objectives
- Entity management needs access to relevant and reliable communication related to internal as well as external events

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COSO Components – Adapted Cont'd

Control Activities

- The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system

Monitoring

- Activities management establishes and operates to assess the quality of performance over time and promptly resolves the findings of audits and other reviews

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COSO 2013



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Control Environment

1. The organization demonstrates a commitment to **integrity** and **ethical values**
2. The board of directors demonstrates **independence** from management and exercises oversight of the development and performance of internal control
3. Management establishes, with board oversight, structures, reporting lines, and appropriate **authorities and responsibilities** in the pursuit of objectives
4. The organization demonstrates a **commitment** to attract, develop, and retain competent individuals in alignment with objectives
5. The organization holds individuals **accountable** for their internal control responsibilities in the pursuit of objectives

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Risk Assessment

6. The organization specifies **objectives** with sufficient clarity to enable the identification and assessment of risks relating to objectives
7. The organization **identifies risks** to the achievement of its objectives across the entity and **analyzes risks** as a basis for determining how the risks should be managed
8. The organization considers the potential for **fraud** in assessing risks to the achievement of objectives
9. The organization identifies and assesses **changes** that could significantly impact the system of internal control

Control Activities

10. The organization selects and develops **control activities** that contribute to the mitigation of risks to the achievement of objectives to acceptable levels
11. The organization selects and develops **general control activities over technology** to support the achievement of objectives
12. The organization deploys control activities through **policies** that establish what is expected and **procedures** that put policies into place

Information & Communication

13. The organization obtains or generates and uses relevant, quality **information** to support the functioning of internal control
14. The organization **internally communicates** information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control
15. The organization communicates with **external parties** regarding matters affecting the functioning of internal control

Monitoring

16. The organization selects, develops, and performs ongoing **and/or separate evaluations** to ascertain whether the components of internal control are present and functioning
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for **taking corrective** action, including senior management and the board of directors, as appropriate

Let's Do An Exercise



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Allowable Costs

- Control Objective
 - To provide reasonable assurance that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles

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Consider the Following

What's the Risk?

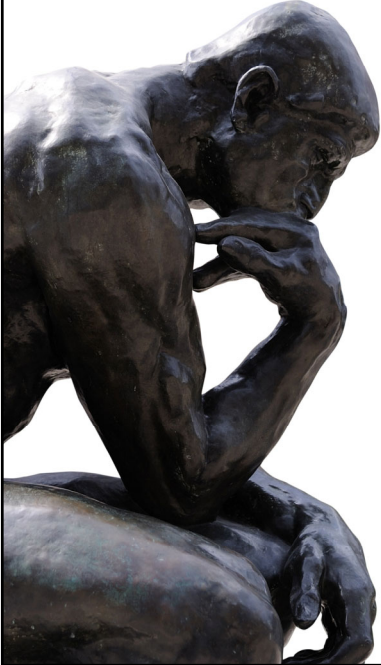
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Consider the Following

How Can We Mitigate
the Risk?

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Consider the Following


What is the Evidence?

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Compliance Supplement

- Part 6 has two appendices
 - Appendix 1 - Illustrative Entity-Wide Controls
 - Appendix 2 - Illustrative Specific Controls – Control Activities (excerpted from Greenbook)

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Appendix 2

A. ACTIVITIES ALLOWED OR UNALLOWED B. ALLOWABLE COSTS/COST PRINCIPLES	C. CASH MANAGEMENT	E. ELIGIBILITY
Supervisors review and approve invoices, cost allocations, efforts of personnel, fringe benefits and indirect charges for allowability, adherence to cost principles, accuracy, and completeness.	Requests for reimbursement are reviewed/authorized prior to submission by reviewing supporting documents/schedules/reports to ensure amounts have been paid with the organization's funds prior to the reimbursement request. (Reimbursement)	Accuracy and completeness of data used to determine eligibility requirements are reviewed and agreed to support as necessary by staff and reviewed by knowledgeable supervisor.
Chart of accounts segregates unallowable costs/activities into discrete accounts to help ensure they are not coded to federal awards; directly or indirectly.	Cash flow statements/forecasts are prepared and reviewed to determine the immediate cash needs of the federal program. (Advance)	Manual checklists or automated processes used when making eligibility determinations are reviewed and approved by a knowledgeable supervisor.
On a monthly basis, the grant supervisor reviews the budget vs. actual report investigating unusual or unexpected variances and documents results of follow-up work performed.		Calculations of amounts to be received for or on behalf of participants are reperformed by supervisor.

Preliminary Assessment

- After obtaining an understanding of internal control over compliance for major programs, the auditor makes a preliminary assessment of control risk of noncompliance related to the direct and material compliance requirements for major programs
- The auditor's basis for judgment of the assessed level of control risk of noncompliance should be documented to support the decisions made

Testing Operating Effectiveness

- The auditor should plan the test of internal control over compliance for major programs to **support a low assessed level** of control risk for the assertions relevant to the compliance requirements for each major program
- Testing the operating effectiveness of controls is different from obtaining an understanding of and evaluating the design and implementation of controls

Extent of Testing of ICOC

- The **frequency** of the performance of the control by the entity during the period
- The **length of time** during the audit period that the auditor is relying on the operating effectiveness of the control
- The **expected deviation** from the control
- The **relevance and reliability** of the audit evidence to be obtained with respect to the type of compliance requirement being considered
- The **extent** to which audit evidence is obtained from tests of other controls related to the type of compliance requirement

AICPA Response



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Chapters With More Changes

- Chapter 11 – Entity-Wide Procedures
 - Understanding the Entity and Its Environment
 - Understanding the Components of the Entity’s System of Internal Control
 - IT Applications and General IT Controls
 - Discussion Among the Engagement Team
 - Consideration of Fraud
 - Results of Previous Audits, Attestation Engagements, and Monitoring

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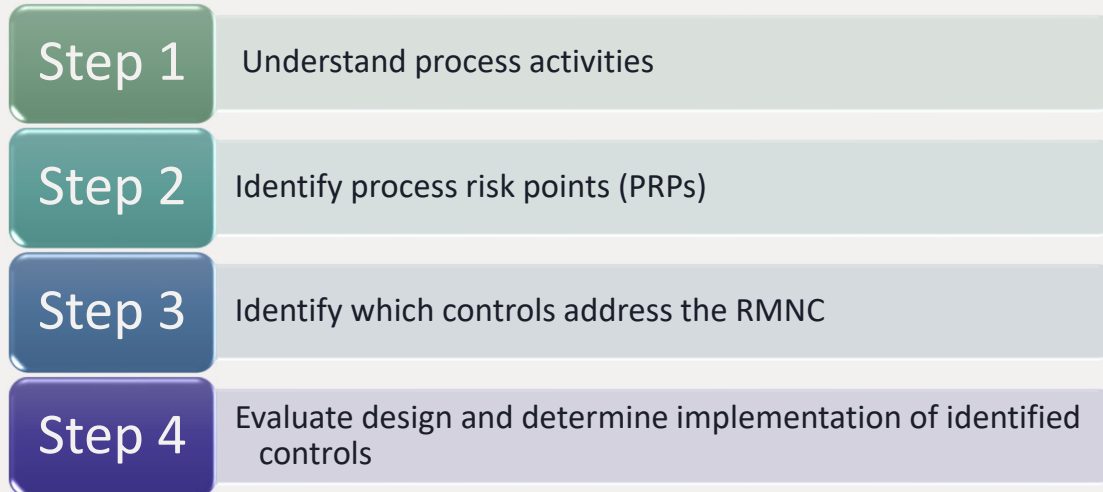
Risk Assessment

- Entity Wide
 - Performed collectively for more than one major program that are administered (operate) within same environment (organizational unit)
- Major Program Level
- Direct & Material Compliance Requirement Level

Chapters with More Changes Cont'd

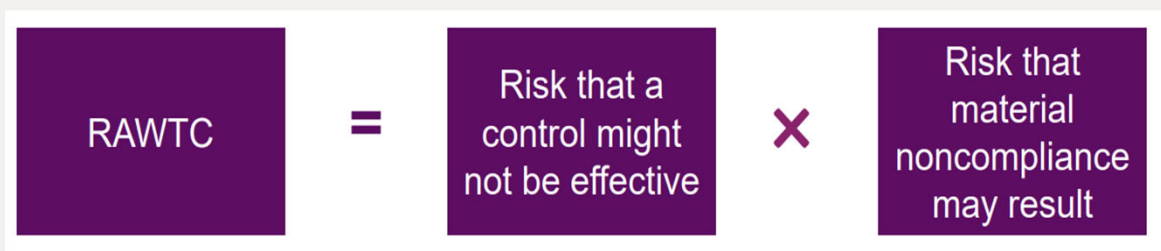
- Chapter 13 – Testing Internal Controls
 - Obtaining Understanding of Control Activities
 - Testing Operating Effectiveness of Controls
 - Performing Control Sampling of Manual Controls
 - Evaluating Cumulative Evidence for Operating Effectiveness

Four Step Processes for ICOC



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Risk Associated with the Control (RAWTC)



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Reporting



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Reporting

- Report on Financial Statements
- Report on SEFA
- Yellow Book Report
- Report on Major Programs
 - Schedule of Findings & Questioned Cost

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Reporting Package



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UG Report

- A report on compliance for each major program and a report on internal control over compliance
 - Describes the scope of testing of ICOC
 - Includes an opinion or disclaimer of opinion as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program
 - Refer to the separate Schedule of Findings and Questioned Costs

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UG Findings

- Significant deficiencies and material weaknesses over a type of compliance requirement for a major program
- Significant instances of abuse relating to a major program
- Material noncompliance in relation to a type of compliance requirement for a major program
- Likely or known questioned costs are greater than \$25k for a major program

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UG Findings Cont'd

- Known questioned costs are greater than \$25k for any federal program
- Unless addressed in another finding, a finding explaining why a major program did not obtain an unmodified opinion
- Unless addressed in another finding and not prohibited by GAGAS, a finding for known or likely fraud affecting a federal award
- Summary Schedule of Prior Audit Finding materially misrepresents the status of any prior audit finding

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200.511, Audit Findings Follow-up

The **auditee** must prepare:

- Summary schedule of prior audit findings
- Corrective action plan for current year audit findings
 - On their letterhead

Include the reference numbers the auditor assigns to audit findings

Summary Schedule of Prior Audit Findings

- Must report the **status** of all audit findings included in the prior audit's schedule of findings and questioned costs
 - Must also include audit findings reported in the **prior audit's summary schedule of prior audit findings** except audit findings listed as corrected, or no longer valid or not warranting further action

What to Report

- **If fully corrected**, list the audit findings and state that corrective action was taken
- **If not corrected or were only partially corrected**, describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken
- **If no longer valid or do not warrant further action**, describe the reasons for this position

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Corrective Action Plan

- The auditee must prepare, in a document separate from the auditor's findings, a corrective action plan to address each audit finding included in the current year auditor's reports
 - Provide the name(s) of the contact person(s) responsible for corrective action
 - Corrective action planned
 - Anticipated completion date

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Elements of a Finding



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Required Elements of a Finding

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Identifying Information

- Federal program and specific Federal award identification including the assistance listing title and number
- Federal award identification number and year
- Name of Federal agency
- Name of the applicable pass-through entity

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Criteria

- The criteria or specific requirement upon which the audit finding is based, including the Federal statutes, regulations, or the terms and conditions of the Federal awards
- Criteria generally identify the required or desired state or expectation with respect to the program or operation
- Criteria provide a context for evaluating evidence and understanding findings

Condition

- The condition found, including facts that support the deficiency identified in the audit finding

Cause

- A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action

Effect

- The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action
- A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria

Questioned Cost

- Identification of questioned costs and how they were computed
- Known questioned costs must be identified by applicable assistance listing number(s) and applicable Federal award identification number(s)

Perspective

- Information to provide proper perspective for judging the prevalence and consequences of the audit findings
 - i.e. whether the audit findings represent an **isolated** instance or a **systemic** problem
 - Instances identified **must** be related to the universe and the number of cases examined and be quantified in terms of dollar value
 - If the results cannot be projected, auditors should limit their conclusion appropriately

Repeat Finding

- Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and if so, any applicable prior year audit finding numbers

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Recommendation

- Recommendations to prevent future occurrences of the deficiency identified in the audit finding

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Views of Responsible Officials

- Views of responsible officials of the auditee

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SFQC



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Schedule of Findings and Questioned Costs

- Auditor reporting must include a SFQC that includes the following:
 1. Summary of Auditor Results
 2. Findings relating to the FS which are required to be reported in accordance with GAGAS
 3. Findings and questioned costs for federal awards

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SFQC – Summary of Auditor’s Results

- Type of auditor’s report on the financial statements
 - Unmodified, Qualified, Adverse, Disclaimer

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SFQC – Summary of Auditor's Results Cont'd

- Internal Control over Financial Reporting
 - Material weaknesses identified?
 - Significant deficiencies identified?
- Disclosed noncompliance material to FS?

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SFQC – Summary of Auditor's Results Cont'd

- Internal Control over Major Programs
 - Material weaknesses identified?
 - Significant deficiencies identified?
- Type of auditor's report issued on compliance for major programs
 - Unmodified, qualified, adverse, or disclaimer
- Disclosed UG Findings?

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SFQC – Summary of Auditor's Results Cont'd

- Identification of major programs
- Dollar threshold used to distinguish between Type A and Type B programs
- Whether the auditee qualified as low-risk auditee

SFQC – Part 2 (Financial Statements)

- This section includes all findings related to the audit of the financial statements that are required to be reported by GAAS and GAGAS
- Required GAGAS finding elements

SFQC – Part 3 (Federal Awards)

- This section includes all findings required to be reported by UG
- Required UG audit finding elements

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Data Collection Form and Findings

- Findings are summarized in DCF
 - Ensure consistency between DCF and SFQC

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Sampling



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Sampling

- Inadequate sample sizes
 - Did not follow applicable guidance
- Dual Testing
 - Selected an overall adequate sample size, but an inadequate sample from the major program being audited for compliance testing
- Samples from incomplete populations
 - Example: For disbursements – selected only physical checks rather than both physical checks and electronic transactions

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Sampling Cont'd

- Selecting a sample from a sample
 - Example: Selected one month to review, then selected a sample from within that “month” sample
- Performing interim testing without an adequate sample from the remaining stub period
 - Example: For a sample of 40, 37 are selected from Jan.-Sep., and only three are selected from Oct.-Dec., skewing the sample selection to the first nine months of the period tested

Sampling Cont'd

- Use of Block Sampling
- Sampling for compliance across MULTIPLE programs
 - OK for control but likely NOT for compliance

Sampling Reminders



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Sampling Defined

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Sampling

- “the selection and evaluation of less than 100 percent of the population of audit relevance such that the auditor expects the items selected (the sample) to be representative of the population and, thus, likely to provide a reasonable basis for conclusions about the population”
– AU-C 530

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What is NOT sampling?

Inquiry and
Observation

Analytical
Procedures

Procedures applied
to every item in
population

Tests of Automated
IT controls

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Non-Statistical vs. Statistical Samples

- Both comply with auditing standards
 - Statistical samples rely on statistics
 - Non-statistical rely on professional judgment

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Requirements That Apply to All Single Audit Samples

Planning

- Determine Audit Objective
- Define the Population
- Define Sampling Unit

Selection

- Representative Selection

Evaluation

- Calculate Deviation Rates
- Project Sample Results

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Purpose of Single Audit Samples

- Tests of controls (TOC) provide evidence about the effectiveness of the design, implementation, or operation of controls and policies in preventing or detecting material noncompliance
 - Objective: Rates of deviations from a prescribed control

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Purpose of Single Audit Samples Cont'd

- Compliance testing provides evidence about an auditee's ability to adhere to the direct & material compliance requirements of its major programs
 - **Objective:** Rates and potential magnitude of noncompliance

Population Considerations

- Identify & document testing objective
 - Different objectives for tests of control and compliance
 - Utilize the Compliance Supplement
- Be sure to test for population completeness
 - Perform reconciliation to the SEFA
 - Compare to other accounting records

Population Considerations Cont'd

- Population may not consist of accounting records
 - i.e. eligibility files
- Centralization vs. Decentralization
 - Timesheets approved separately by different departments
 - Transaction processing and the operation of related controls are decentralized
 - Goal is representative sample

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Population Considerations Cont'd

- Understand the characteristics of the population
 - Identify the sampling unit (cash disbursements, eligibility files, expenditures, refund paid, financial reports, cost transfers)
 - Remove individually important items
 - Does each transaction or instance of the control have an equal opportunity of being selected?

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Multi-component Populations

- How does each component maintain internal controls?
 - Independently/centrally
- Consider separate populations
 - Locations, programs
- Clusters

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Controls vs. Compliance

- Properly identify the universe of transactions
 - Auditor's opinion is on EACH major program
 - For controls testing, it may be OK to test across programs
 - For compliance testing, treat each major program as a separate population

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Example

- An auditee has common internal controls over the Allowable Cost relating to 3 major programs
- Sample size for combined population is 60
- Selection
 - Similar size programs
 - 20 items from each of the 3 major programs
 - Dissimilar size programs
 - Allocate proportionately

Controls Testing

- Required to obtain high assurance (CR = Low)
 - High Assurance = 90-95% confidence (per sampling guide)
 - Sampling requires “tolerance” for deviations (5 to 10%)
- Use auditor’s judgment
 - May need to test more than the minimum

Controls Testing & Compliance

- Must plan tests of controls to obtain an understanding of internal control over federal programs sufficient to plan the compliance audit to support a low assessed level of control risk of noncompliance for major programs
- While the planned tests must be performed, the guidance does not require that a low level of assessed control risk of noncompliance be achieved

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Inputs for Control Testing



Significance
of Control



Inherent
Risk

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Control Testing Sample Sizes

Significance of Control	Inherent Risk	Minimum Sample Size (0 deviations expected)
Very Significant	Higher Inherent Risk	60
Very Significant	Limited Inherent Risk	40
Moderately Significant	Higher Inherent Risk	40
Moderately Significant	Limited Inherent Risk	25

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What about Smaller Populations?

Frequency and/or Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9

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Inputs for Compliance Testing

- Desired Level of Assurance
 - Remaining Risk of Non-Compliance

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Impact on Sample Size

Desired Level of Assurance (Remaining Risk of Material NonCompliance)	Minimum Sample Size (0 Exceptions expected)
High	60
Moderate	40
Low	25

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What about Smaller Populations?

Frequency and/or Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9

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Updated Sample Size Table

Control Sample Sizes When Zero Deviations Expected

Frequency of Manual Control and Population Size	Control Sample Size Based on RAWTC		
	Low	Moderate	High
Annual (1)	1	1	1
Quarterly (4)	2	2	2
Monthly (12)	2	3	4
Semi-Monthly (24)	3	5	7
Weekly (52)	5	7	9
Population Size 53-249	10%	15%	25%
Daily/Recurring (250+)	25	40	60

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Zero Deviations & IC are Effective

Number of Units (Items) in the Population	Compliance Sample Sized Based on Inherent Risk		
	Low	Moderate	High
10 or less (a)	35%	45%	55%
11-24	20%	25%	30%
25-49	15%	18%	21%
50-149	12%	15%	18%
150-249	10%	12%	15%
250 +	25 items	30 items	40 items

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Not Effective, Expecting Zero Deviations

Number of Units (Items) in the Population	Compliance Sample Sized Based on Inherent Risk		
	Low	Moderate	High
10 or less (a)	50%	60%	70%
11-24	30%	40%	50%
25-49	25%	30%	35%
50-149	20%	25%	30%
150-249	15%	20%	25%
250 +	30 items	40 items	60 items

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Compliance Testing



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Compliance Testing

- Using wrong Compliance Supplement
- Not providing explanation for not D&M

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Compliance Testing Reminders



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How Do I Know What to Test?

- Determine applicability of compliance requirements
 - Part 2 of the Compliance Supplement – Matrix of Compliance Requirements
 - What is “subject to audit”
 - Review contracts and grant agreements
 - Discuss with appropriate individuals within the auditee organization

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Matrix of Compliance Requirements

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	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.512	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.514	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.515	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.516	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.517	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.520	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.521	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.551/10.561	Y	Y	N	N	N	Y	N	Y	N	N	Y	Y
10.553/10.555/10.556/10.559	Y	Y	Y	Y	N	N	N	Y	Y	N	N	Y
10.557	Y	Y	Y	Y	N	N	Y	Y	N	N	N	N
10.558	Y	Y	Y	Y	N	N	N	Y	N	Y	Y	Y

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Identifying Direct & Material Compliance Requirements

- Use professional judgment to determine which of the 6 types of compliance requirements may have a direct and material effect on each major program

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Considerations

Consider both qualitative and quantitative factors

- Auditor judgment
- Experience
- Accepted risk
- Industry expectation

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Direct & Material

- Noncompliance could result in being denied reimbursement of program expenditures or having to refund federal monies or make other restitution in an amount that would be material to the major program
- DOCUMENT this consideration and results
 - N/A or Not D&M is not enough
 - Inquiry alone is not enough

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Compliance Requirements

Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility
Equipment & Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement and Suspension and Debarment
Program Income	Reporting	Subrecipient Monitoring	Special Tests & Provisions

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Activities Allowed or Unallowed (A)

- Specifies the activities that can or cannot be funded under a specific program and how they are calculated and supported
- Unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program

Allowable Costs / Cost Principles (B)

- Specifies the costs that can and cannot be funded under a specific program and how they are calculated and supported

In accordance with required guidance:

- CFR 200 Subpart E
- **Prior OMB Circulars**
- Terms specified in the grant agreement

Allowable Costs / Cost Principles (A/B)

To be allowable, a cost must:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the recipient and or subrecipient.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be determined in accordance with GAAP, except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Be adequately documented.
- Cost must be incurred during the approved budget period.

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Cash Management (C)

- Reimbursement Basis
 - Program costs must be paid for by the entity prior to requesting reimbursement
- Advance Payments
 - Recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement

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Eligibility (E)

- Participants meet the program criteria to receive grant funding
- The specific requirements for eligibility are unique to each Federal program
 - The requirements are found in the laws, regulations, and the provisions of contracts and grant agreements

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Equipment & Real Property Management (F)

- Management, use and disposal of equipment or real property
- Requirements for equipment and real property are contained in UG, program legislation, Federal awarding agency regulations, and the terms and conditions of the award

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Matching, Level of Effort, Earmarking (G)

- Matching
 - Required cost share
- Level of effort
 - Required participation from period to period
- Earmarking
 - Setting aside funding for specified activities

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Period of Performance (H)

- The total estimated time interval between the start of an initial Federal award and the planned end date, which may include one or more funded portions, or budget periods

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Procurement and Suspension and Debarment (I)

- Procurement
 - Five methods of procurement
 1. Micro-purchase
 2. Small Purchase
 3. Sealed Bids
 4. Proposals
 5. Noncompetitive Procurement

Procurement and Suspension and Debarment (I) Cont'd

- Suspension and Debarment
 - Prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred

Program Income (J)

- Income generated by Federal funds are used for program expenditures
- May be used in 3 ways:

Deducted
from outlays

Added to
project
budget

Used to meet
matching
requirements

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Reporting (L)

- Reporting Requirements
 - Financial
 - Performance
 - Special
 - FFATA

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Sub-recipient Monitoring (M)

- Verify subrecipient is not excluded or disqualified
- Identification of the award as a subaward
- Evaluate fraud risk and risk of noncompliance
- Monitoring pass-through funding
- Ensure accountability
- Verify that subrecipient is audited (as necessary)

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AICPA Response



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Chapters with More Changes

- Chapter 12 – Identification & Assessment of RMNCs
 - Understanding of Major Program
 - Determining Materiality for Each Major Program
 - Identifying Types of Compliance Requirements Subject to Audit
 - Determining DM Compliance Requirements
 - Identifying RMNCs Assessing Inherent Risk and Control Risk

D&M Determination

- Generally considered to contain more than one compliance category:
 - Equipment and real property management
 - Matching, level of effort, earmarking
 - Procurement and suspension and debarment

D&M Determination Cont'd

- If expenditures for a cost category exceed materiality for the major program, it is an indicator that all compliance requirements subject to audit are considered direct and material



Conflict with Audit Guidance

- A risk of material noncompliance exists when
 - There is a reasonable possibility of noncompliance occurring (that is, likelihood), and
 - If it were to occur, there is a reasonable possibility of the noncompliance being material (that is, magnitude)
- However, in a Single Audit, the auditor is required to audit the types of compliance requirements identified as subject to audit that could have a D&M effect on each major program
 - The identification of RMNCs for each D&M compliance requirement does not include a consideration of the likelihood of noncompliance occurring

Appendix

- **Nonauthoritative** appendix provides examples of identified RMNCs for each type of compliance requirement

More Granular

- Historically, some auditors may have assessed risk at the overall compliance requirement level (e.g., Activities Allowed/Unallowed), not based on the composition of audit objectives that support overall compliance with the applicable compliance requirement
 - Results in overly broad RAP's and further audit procedures
 - Identified controls or substantive procedures may not be responsive to RMNCs

Example Allowable Cost

- Identified Risks
 - Direct payroll costs are not for allowable activities, are not reasonable, or are not based on records that accurately reflect the work performed
 - Fringe benefit costs are not charged based on rates that are federally negotiated, fringe benefit costs are not for allowable activities, are not allowable, are not properly assigned to federal awards
 - Direct other than personal services costs are not for allowable activities or are not allowable

Chapters with More Changes Cont'd

- Chapter 14 – Testing Compliance
 - Performing Tests of Compliance in Response to Assessed Risks
 - Understanding Population and Considering Completeness Testing Compliance
 - Evaluating Relevance and Reliability of Information
 - Considering Sufficiency and Appropriateness of Audit Evidence
 - Example Populations and Sampling Unit

Primary Changes

- Enhance guidance on identifying individually important items to test that are quantitatively large
- New example populations, sampling units, and procedures to test completeness of population
- New guidance on testing relevance and reliability for information when used in substantive procedures
- New sample sizes tables for testing compliance based on whether the auditor is able to rely on internal controls
- New guidance on obtaining audit evidence when instances of noncompliance are identified

Individually Important Items

- Items that, standing alone, are significantly different from the remainder of the population

Major Program Determination Reminders



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Four-step Approach to MPD

- 1 Identify Type A Programs
- 2 Identify Low Risk Type A Programs
- 3 Identify "High Risk" Type B Programs
- 4 Identify Major Programs to Audit

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Step 1: Type A Threshold

- Groupings are based on dollars:

Total Federal Awards Expended	Type A Threshold
\$1,000,000 to \$34 million	\$1,000,000
Exceed \$34 million and less than or equal to \$100 million	3% of Total Federal Awards Expended
Exceed \$100 million, but less than or equal to \$1 billion	\$3 million
Exceed \$1 billion, but less than or equal to \$10 billion	0.3% of Total Federal Awards Expended
Exceed \$10 billion, but less than or equal to \$20 billion	\$30 million
Exceed \$20 billion	0.15% of Total Federal Awards Expended

Step 1: Type A Threshold Cont'd

- Federal programs that do not meet the Type A criteria are labeled Type B programs

Step 1: Type A Threshold Cont'd

- “Federal program providing loans” is one in which the value of federal awards expended for loans within the program comprises 50% or more of the total federal awards for the program

Step 1: Type A Threshold Cont'd

- “Large loan program” is one in which the federal program providing loans exceeds four times the largest non-loan program
- The Type A threshold is calculated after removing the total of all large loan programs

Step 2: Low-Risk Type A Program

- Must have been audited as a Major program in at least one of the 2 most recent audit periods

In the most recent audit period did not have:

- Material weaknesses in the auditor's report on internal control for major programs
- A modified opinion on major programs
- Known or likely questioned costs that exceed 5% of total Federal awards for the program

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Step 2: Low-Risk Type A Program Cont'd

- Auditor must consider the results of audit follow-up, or any changes in personnel or systems affecting the program indicate significantly increased risk and preclude the program from being low risk
- Consider oversight exercised by Federal agencies & PTEs
- Federal agencies may identify Federal programs that are higher risk
 - Appendix IV of Compliance Supplement

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Step 3: Type B Program - Risk Assessment Threshold

- Only assess risk on Type Bs that exceed 25% of the Type A threshold

Step 3: Type B Programs – Required for Audit

- Number of High-Risk Type B programs that must be tested:
 - No more than at least 25% of the **number** of Low-Risk Type As

Step 3: Type B Programs – Required for Audit Cont'd

- Identify Type B programs that are high-risk by using your professional judgment and the following criteria:
 - Current and prior audit experience
 - Oversight exercised by federal agencies and pass-through entities
 - Inherent risk of noncompliance of the federal programs

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Step 3: Type B Programs – Required for Audit Cont'd

Inherent Risk

- The nature of a Federal program may indicate risk
- Complexity of the program
- Extent to which Federal program contracts for goods & services
- The phase of a Federal program in its life cycle
- Significant changes in Federal programs, statutes, regulations, or the T&Cs of Federal awards
- Size of award

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Step 3: Type B Programs – Required for Audit Cont'd

- Encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time

Step 3: Type B Programs – Required for Audit Cont'd

- When the Type A threshold calculation includes adjustment for large loan or loan guarantee programs, the Type A threshold used for this 25% calculation for small Type B programs is the same as the adjusted Type A threshold which is required to be reported in the summary of the auditor's results in the schedule of findings and questioned costs

Step 4: Determine Which Major Programs to Audit



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Double Check – Percentage of Coverage

Type of Auditee	UG
Not Low Risk	40%
Low-Risk	20%

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Low Risk Auditee

For each of the preceding two audit periods
(meets all of the following)

- Annual single audit
- Unmodified opinion on financial statements prepared in accordance with GAAP or a basis of accounting **required by state law**
- No material weaknesses (GAGAS)
- No going concern reported
- Timely following with FAC

Low Risk Auditee Cont'd

- In either of the preceding two audit periods when classified as Type A programs, did not have:
 - Material weaknesses in the auditor's report on internal control for major programs
 - A modified opinion on a major program
 - Known or likely questioned costs that exceeded 5% of the total Federal awards expended for a Type A program during the audit period

Auditor Judgment

- Less auditor judgment is allowed in the risk assessment of Type A programs than Type B programs

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3, 2, 1 Method of Applying New Knowledge

3 things I learned

2 actions to apply what I learned

1 way I will share my learning



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Let's Keep in Touch



gls.advancecpe.com (*webinar*)



gls.lcvista.com (*QAS Self Study*)



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What Questions Do You Have?



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