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2014

## **Government auditing standards and Circular A-133 developments - 2014; Audit risk alerts**

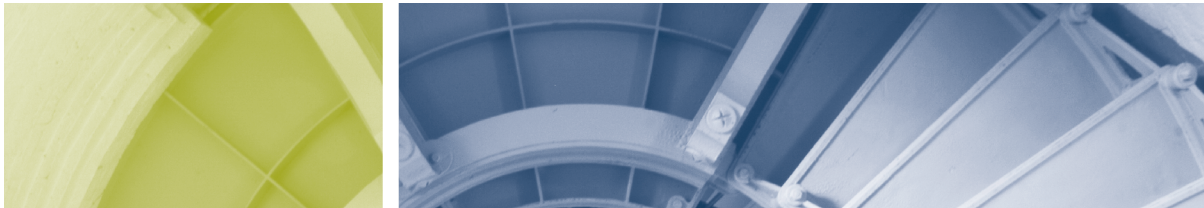
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A U D I T R I S K A L E R T



*Government  
Auditing Standards  
and Circular A-133  
Developments*

**2014** | *Government  
Auditing Standards  
and Circular A-133  
Developments*

ISBN 978-1-94165-100-1



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## Notice to Readers

This Audit Risk Alert (alert) replaces Government Auditing Standards and *Circular A-133 Developments—2013*.

This alert is intended to provide auditors who perform audits under *Government Auditing Standards* or Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, with an overview of recent industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform. This alert also can be used by an entity's internal management to address areas of audit concern.

This publication is an *other auditing publication*, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an *other auditing publication*, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

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The AICPA gratefully acknowledges those members of the Auditing Standards Board, the AICPA Technical Issues Committee, and the Governmental Audit Quality Center Executive Committee, who helped identify the interest areas for inclusion in this alert.

## **Feedback**

The Audit Risk Alert Government Auditing Standards *and Circular A-133 Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert also would be appreciated. You may e-mail these comments to [A&APublications@aicpa.org](mailto:A&APublications@aicpa.org).

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## How This Alert Helps You

**.01** This alert helps you plan and perform audits conducted in accordance with *Government Auditing Standards* (also known as the Yellow Book) and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The alert can also be used by an entity's internal management to address areas of audit concern. This alert provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. The alert is an important tool to help you identify the significant risks that may affect the audit and delivers information about emerging practice issues and current auditing and regulatory developments as they relate to audits performed under *Government Auditing Standards* and OMB guidance. For developing issues that may have a significant impact on single audits in the future, the "On the Horizon" section provides information on these topics.

**.02** This alert is intended to be used in conjunction with the *General Audit Risk Alert—2013/14* (product nos. ARAGEN13P, ARAGEN13E, or WGE-XX), which explains important issues that affect all entities in all industries in the current economic climate. In addition, you may want to use this Audit Risk Alert in conjunction with other industry alerts such as *Not-for-Profit Entities Industry Developments—2014*, *Health Care Industry Developments—2013/14*, and *State and Local Governmental Developments—2014*. You should refer to the full text of accounting and auditing pronouncements as well as the full text of any rules or publications that are discussed in this alert.

**.03** It is essential that the auditor understand the meaning of audit risk and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain audit evidence to draw reasonable conclusions on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise
  - tests of controls, when required by generally accepted auditing standards (GAAS), by regulation (such as OMB Circular A-133), or when the auditor has chosen to do so
  - substantive procedures that include tests of details and substantive analytical procedures

**.04** The auditor should develop an audit plan that includes, among other things, the nature and extent of planned risk assessment procedures as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*). AU-C section 315 defines *risk assessment procedures* as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels. As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the industry, regulatory, and other external factors, including the applicable financial reporting framework, relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

.05 In an audit performed under *Government Auditing Standards* and Circular A-133, risk assessment procedures should be performed for all aspects of the audit. They are performed as part of the audit of the financial statements and the additional reporting required under *Government Auditing Standards*. In addition, AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*), provides guidance regarding risk assessment in the Circular A-133 compliance audit. Under that guidance, for each of the major programs and direct and material compliance requirements selected for testing, the auditor should perform risk assessment procedures to obtain a sufficient understanding of the direct and material compliance requirements and the entity's internal control over compliance with those compliance requirements. This understanding of the major program, the direct and material compliance requirements, and the entity's internal control over compliance establishes a frame of reference within which the auditor plans the compliance audit and exercises professional judgment about assessing risks of material noncompliance and responding to those risks throughout the compliance audit.

## Legislative and Regulatory Developments

### Introduction to *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

.06 OMB issued the guidance *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance for Federal Awards) on December 26, 2013. This guidance, available at Electronic Code of Federal Regulations, supersedes and streamlines requirements from eight different circulars into one document contained in Title 2, *Grants and Agreements*, of the U.S. *Code of Federal Regulations* (CFR) (see Subtitle A, Chapter II, Part 200). The circulars that will be superseded upon the effective date of the Uniform Guidance for Federal Awards are as follows:

- Circular A-21, *Cost Principles for Educational Institutions*
- Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*
- Circular A-89, *Federal Domestic Assistance Program Information*
- Circular A-102, *Grants and Cooperative Agreements With State and Local Governments*
- Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospital and Other Non-Profit Organizations*
- Circular A-122, *Cost Principles for Non-Profit Organizations*
- Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*

.07 The guidance in Circular A-50, *Audit Followup*, regarding Single Audit Act follow-up has also been incorporated into the Uniform Guidance for Federal Awards.

.08 As evidenced by the subject matter of the circulars, guidance for a variety of areas and types of entities will now be housed in the Uniform Guidance for Federal Awards. Certain definitions, cost principles, and administrative and other requirements are a consolidation of the superseded guidance from

the various circulars. Therefore, it is important to carefully analyze the Uniform Guidance for Federal Awards to see how this consolidation of guidance has changed the requirements as it relates to a particular audit engagement. Regarding the guidance that is found in the Uniform Guidance for Federal Awards, some of the requirements are very similar to those found in the superseded circulars. However, there are many differences, large and small, as a result of the consolidation of the circulars and the revision of audit and other requirements.

**Special Note Regarding Use of the Terms *Must* and *Should*.** The Uniform Guidance for Federal Awards uses the term *must* to indicate a requirement in the document. Related FAQs<sup>1</sup> clarify that the term *should* is used in Uniform Guidance for Federal Awards to indicate best practice or recommended approach and does not indicate a requirement. This is important to keep in mind when looking at the guidance because the meaning of *should* in the Uniform Guidance for Federal Awards is different than its meaning in GAAS and *Government Auditing Standards*.

.09 The Uniform Guidance for Federal Awards is located in the following sections of 2 CFR 200:

- Subpart A Acronyms and Definitions 200.0–200.99
- Subpart B General Provisions 200.100–200.113
- Subpart C Pre-Federal Award Requirements and Contents of Federal Awards 200.200–200.211
- Subpart D Post Federal Award Requirements 200.300–200.345
- Subpart E Cost Principles<sup>2</sup> 200.400–200.475
- Subpart F Audit Requirements 200.500–200.521

There are 11 appendixes that follow Subpart F, "Audit Requirements," in the Uniform Guidance for Federal Awards. These appendixes are as follows:

- Appendix I to Part 200 Full Text of Notice of Funding Opportunity
- Appendix II to Part 200 Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
- Appendix III to Part 200 Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)

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<sup>1</sup> The Council on Financial Assistance Reform (COFAR) has released the first in a series of Frequently Asked Questions (FAQs) documents that provides information on a number of issues related to the Uniform Guidance for Federal Awards, including the use of *must* and *should*. This document is available at <https://cfo.gov/wp-content/uploads/2013/01/2-C.F.R.-200-FAQs-2-12-2014.pdf>.

<sup>2</sup> As noted in Appendix IX, "Hospital Cost Principles," of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance for Federal Awards), cost principles applicable to hospitals are not superseded with the issuance of the Uniform Guidance for Federal Awards. The OMB proposed to establish a review process to consider existing hospital cost determination and how best to update and align them with the cost principle guidance in the Uniform Guidance for Federal Awards. Until such time as revised guidance is proposed and implemented for hospitals, the existing principles at 45 CFR Part 74 Appendix E, "Principles for Determining Cost Applicable to Research and Development Under Grants and Contracts with Hospitals," remain in effect. It is important to note that it is the hospital cost principles (only) that are not superseded by the Uniform Guidance for Federal Awards. Hospitals are required to comply with the requirements of the Uniform Guidance for Federal Awards other than the cost principles upon the effective date.

- Appendix IV to Part 200 Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
- Appendix V to Part 200 State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans
- Appendix VI to Part 200 Public Assistance Cost Allocation Plans
- Appendix VII to Part 200 States and Local Government and Indian Tribe Indirect Cost Proposals
- Appendix VIII to Part 200 Nonprofit Organizations Exempted From Subpart E, Cost Principles, of Part 200
- Appendix IX to Part 200 Hospital Cost Principles<sup>3</sup>
- Appendix X to Part 200 Data Collection Form (Form SF-SAC)
- Appendix XI to Part 200 Compliance Supplement

**.10** The Uniform Guidance for Federal Awards applies to federal agencies making federal awards and, when adopted by the agencies, will apply to nonfederal entities, which include states, local governments, Indian tribes, institutions of higher education, and nonprofit organizations receiving federal awards.<sup>4</sup>

**.11 Crosswalk Documents.** *Crosswalk documents* are available to show the source of guidance found in the Uniform Guidance for Federal Awards (for example, which circular a particular section was derived from). Also available is a crosswalk document that shows where guidance in a superseded circular appears in the Uniform Guidance for Federal Awards. The crosswalk documents were prepared prior to the issuance of the final Uniform Guidance for Federal Awards. Therefore, some of the Uniform Guidance for Federal Awards excerpts in the crosswalk documents may not contain the final guidance issued. However, it has been communicated that the section numbers referenced in the crosswalk documents have not changed. Refer to the Uniform Guidance for Federal Awards document for the final guidance issued. The Uniform Guidance for Federal Awards crosswalk documents, available at [www.whitehouse.gov/omb/grants\\_docs](http://www.whitehouse.gov/omb/grants_docs), include the following:

- Uniform Guidance Crosswalk from Predominant Source in Existing Guidance (29 pages, 442 kb)
- Uniform Guidance Crosswalk to Predominant Source in Existing Guidance (10 pages, 282 kb)
- Uniform Guidance Cost Principles Text Comparison (174 pages, 1.62 mb)
- Uniform Guidance Audit Requirements Text Comparison (46 pages, 731 kb)
- Uniform Guidance Definitions Text Comparison (76 pages, 476 kb)
- Uniform Guidance Administrative Requirements Text Comparison (123 pages, 1 mb)

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<sup>3</sup> See footnote 2.

<sup>4</sup> As noted in 2 CFR 200.101, federal agencies may apply subparts A through E to for-profit entities, foreign public entities, or foreign organizations except where the federal awarding agency determines that the application of these subparts would be inconsistent with the international obligations of the U.S. or the statute or regulations of a foreign government.

**Effective Date (Section 200.110)**

**.12** Because the Uniform Guidance for Federal Awards is applicable to federal agencies, nonfederal entities, and auditors, there are different effective dates. This allows federal agencies time to adopt and implement the guidance before nonfederal entities are required to apply the guidance to new federal awards and incremental funding (that is, additional funding to existing awards) and then be audited under the new audit requirements.

**.13 Federal agencies.** The federal agencies are required to adopt the guidance and implement policies and procedures by promulgating regulations to be effective December 26, 2014. All federal agencies are expected to implement the guidance in unison.

**.14 Nonfederal entities.** The Uniform Guidance for Federal Awards defines *nonfederal entity* as a state, local government, Indian tribe, institution of higher education, or nonprofit organization that carries out a federal award as a recipient or subrecipient. The new administrative requirements and cost principles are required to be implemented by nonfederal entities for all federal awards and incremental funding made after December 26, 2014. As noted previously, federal agencies are required to adopt the guidance on this date. Because the adoption date by federal agencies and effective date of the guidance for nonfederal entities is the same, there may be very limited communication from a federal awarding agency to the nonfederal recipient. It is important for recipients to understand that the Uniform Guidance for Federal Awards requirements must be complied with for all federal awards made after December 26, 2014, regardless of whether a communication has been received from the granting agency.

**.15** Note that the FAQs indicate that nonfederal entities wishing to implement entity-wide system changes to comply with the Uniform Guidance for Federal Awards after the effective date of December 26, 2014, will not be penalized. Doing so would allow all federal awards to be subject to the same requirements. See also the following special note regarding effective dates.

**.16 Single Audits.** The audit requirements in Subpart F of the Uniform Guidance for Federal Awards are effective for fiscal years beginning on or after December 26, 2014. Note that although an entity may comply with some of the Uniform Guidance for Federal Awards earlier than is required without penalty (see the preceding section "Nonfederal Entities"), the audit requirements under the Uniform Guidance for Federal Awards are not to be used for fiscal years prior to their effective date. Early implementation of audit requirements as found in the Uniform Guidance for Federal Awards is not permitted (including the use of the revised single audit threshold of \$750,000 to determine if a single audit is required).

**Special Note Regarding Effective Dates.** A nonfederal entity receiving federal awards may have funding subject to both the old administrative requirements and cost principles (as found in the circulars) and the new administrative requirements and cost principles (as found in the Uniform Guidance for Federal Awards) in the first fiscal year after the Uniform Guidance for Federal Awards effective date. One example is a nonfederal entity with a June 30 fiscal year end. The audit for the June 30, 2015, fiscal year end is required to be performed under Circular A-133. However, because the Uniform Guidance for Federal Awards administrative requirements and cost principles are

effective for new awards and incremental funding made after December 26, 2014, the organization may have some awards subject to the new administrative requirements and cost principles, in addition to some awards being subject to the old administrative requirements and cost principles. Auditees need to be sure they are applying the correct administrative requirements and cost principles to a particular federal award. Likewise, auditors need to understand this and be sure they are testing to the proper administrative requirements and cost principles for a particular federal award.

## Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards<sup>5</sup>

.17 The information in this section does not include all that may be important or relevant to the auditor or auditee. The information is not intended to be a complete listing of differences between current administrative requirements, cost principles, and audit requirements and those respective requirements as found in the Uniform Guidance for Federal Awards. Instead, this section highlights a variety of topics found in the Uniform Guidance for Federal Awards.

**Important Note.** Both auditors and auditees should read the Uniform Guidance for Federal Awards in its entirety in order to fully comprehend the revisions. When considering the timing of this, it is important to remember that the administrative requirements and cost principles are effective for auditees for new awards and incremental funding made after December 26, 2014—therefore, this exercise should be done very soon.

### Subpart A, Acronyms and Definitions

.18 This Subpart provides definitions for the terms used in the Uniform Guidance for Federal Awards. As noted previously, many of the definitions are a consolidation of those found in a number of circulars, some of which were specific to a particular type of organization (for example, an educational organization). Therefore, definitions an auditor is accustomed to as they relate to a type of organization may have changed. In addition, some terms that were not previously defined in Circular A-133 or the other superseded circulars have been added to Subpart A.

.19 One significant change in terms is the use of the term *vendor*. This term was widely used in Circular A-133; however, it has been replaced with the term *contractor* in the Uniform Guidance for Federal Awards. Note that the guidance around contractor versus subrecipient determination and characteristics of a payment to a contractor is substantially the same as that found in Circular A-133 relating to vendors. Other definitions of note that have been added are the terms *personally identifiable information* (PII) and *protected personally identifiable information* (protected PII). These terms, not previously defined in grant guidance, are now important for both auditees and auditors because of the public availability of the single audit reporting packages going forward.

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<sup>5</sup> Revisions to guidance of this magnitude often necessitate corrections to the guidance after it is issued. The Office of Management and Budget (OMB) has noted several items of this nature and is in the process of reviewing comments received and making technical corrections. As of the date of this alert, OMB has not issued any guidance with technical corrections.

## **Subpart B, General Provisions**

.20 Subpart B discusses the purpose, applicability, exceptions, and effective date of the Uniform Guidance for Federal Awards. Of particular note is the information in the table at Section 200.101. This table specifies the subparts that are applicable (or not applicable) to a particular type of federal award. Among the types of federal awards noted in the table are grant agreements, cooperative agreements, cost-reimbursement contracts, fixed amount awards, agreements for loans and loan guarantees, interest subsidies, and insurance.

## **Subpart C, Pre-Federal Award Requirements and Contents of Federal Awards**

.21 Subpart C provides information for federal agencies regarding their responsibilities for information that is required to be provided to nonfederal entities for the purpose of applying for and receiving federal awards. This includes

- requirements regarding the public notice of funding opportunities,
- information regarding the federal awarding agency requirement to evaluate the risks posed by applicants prior to the nonfederal entity receiving a federal award, and
- a listing of information that must be included in a federal award document.

## **Subpart D, Post Federal Award Requirements**

.22 Subpart D contains information for both federal agencies and nonfederal entities regarding their responsibilities after a federal award is granted. It covers a wide range of topics. Auditors should identify and understand the content that relates to nonfederal entities because it will be one basis for compliance testing for awards, or increments of awards, made after December 26, 2014. Some topics covered in Subpart D that relate to nonfederal entities are internal controls, procurement, and pass-through entity responsibilities. These are discussed in the following paragraphs.

### *Internal Controls (Section 200.303)*

.23 The nonfederal entities' responsibility for internal control is housed in Subpart D of the Uniform Guidance for Federal Awards. Previously this guidance only resided in the audit requirements of Circular A-133. Section 200.303 states that the nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**Note:** This section states that a best practice is to be in compliance with the internal control guidance in *Standards for Internal Control in the Federal Government* (Green Book) and the *Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).<sup>6</sup> The FAQs released by the Council on Financial

<sup>6</sup> The Committee of Sponsoring Organizations of the Treadway Commission released the document *Internal Control—Integrated Framework* in 2013. This document replaces the original framework that was published in 1992.

Assistance Reform (COFAR)<sup>7</sup> clarify that although nonfederal entities must establish and maintain effective internal control over the federal award, the use of the previously mentioned frameworks and Appendix XI, "Compliance Supplement—Part 6, Internal Control," are not a requirement. In addition, the FAQs state that a nonfederal entity is not required to document or evaluate internal control prescriptively in accordance with these documents or to reconcile technical differences between the documents. They are referenced as source documents for best practices regarding internal control. See also the section "Frameworks for Internal Control" found later in this alert.

**.24** Some of the other responsibilities of a nonfederal entity are to

- comply with federal statutes, regulations, and the terms and conditions of the federal awards,
- evaluate and monitor the nonfederal entity's compliance with federal statutes, regulations, and the terms and conditions of the federal awards,
- take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings, and
- take reasonable measure to safeguard protected PII and other information the federal awarding agency or pass-through entity designates as sensitive or the nonfederal entity considers sensitive consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentiality.

#### *Procurement Standards (Sections 200.317–200.326)*

**.25** As noted in the *Federal Register* notice, this guidance is largely based on the guidance found in Circular A-102. Therefore, nonfederal entities that are currently subject to Circular A-110 will likely be affected more significantly. Note however, the Uniform Guidance for Federal Awards has revised the guidance as found in the circulars, and **all entities** should carefully review the procurement standards to determine the impact on their procurement procedures.

#### *Requirements for Pass-Through Entities (Section 200.331)*

**.26** One topic that is significantly more prominent in the Uniform Guidance for Federal Awards than in Circular A-133 is pass-through entities' responsibilities. Section 200.331 sets forth requirements for pass-through entities as it relates to a number of areas throughout the life cycle of a subaward. These requirements, which are part of the "Subrecipient Monitoring and Management" section of the administrative requirements, likely will significantly increase the responsibilities that a pass-through entity will have going forward. The entirety of Section 200.331 is excerpted as follows.

#### **Requirements for pass-through entities (Section 200.331)**

All pass-through entities must:

- (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some

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<sup>7</sup> See footnote 1.



of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward.<sup>8</sup> Required information includes:

- (1) Federal Award Identification.
  - (i) Subrecipient name (which must match registered name in DUNS);
  - (ii) Subrecipient's DUNS number (see §200.32 Data Universal Numbering System (DUNS) number);
  - (iii) Federal Award Identification Number (FAIN);
  - (iv) Federal Award Date (see §200.39 Federal award date);
  - (v) Subaward Period of Performance Start and End Date;
  - (vi) Amount of Federal Funds Obligated by this action;
  - (vii) Total Amount of Federal Funds Obligated to the subrecipient;
  - (viii) Total Amount of the Federal Award;
  - (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
  - (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official,
  - (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
  - (xii) Identification of whether the award is R&D; and
  - (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.
- (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
- (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient

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<sup>8</sup> This section establishes the requirement that the pass-through entity clearly provide this information to a subrecipient at the time of the subaward. This information has not always been timely communicated in the past.

(in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (b) of this part.

- (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this section, §§200.300 Statutory and national policy requirements through 200.309 Period of performance, and Subpart F—Audit Requirements of this Part; and
- (6) Appropriate terms and conditions concerning closeout of the subaward.

(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (e) of this section, which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this Part, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

(c) Consider imposing specific subaward conditions upon a subrecipient if appropriate as described in §200.207 Specific conditions.

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- (1) Reviewing financial and programmatic reports required by the pass-through entity.
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
- (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.

(e) Depending upon the pass-through entity's assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through

entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:

- (1) Providing subrecipients with training and technical assistance on program-related matters; and
- (2) Performing on-site reviews of the subrecipient's program operations;
- (3) Arranging for agreed-upon procedures engagements as described in §200.425 Audit services.

(f) Verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

(g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.

(h) Consider taking enforcement action against noncompliant subrecipients as described in §200.338 Remedies for noncompliance of this part and in program regulations.

### ***Subpart E, Cost Principles<sup>9</sup>***

**.27** The cost principles found in Subpart E primarily result from a consolidation of those found in Circulars A-21, A-87, and A-122. Auditees and auditors should identify and understand the differences between the cost principles in the Uniform Guidance for Federal Awards and the cost principles to which the auditee was previously subject. It is important to note that an auditee is subject to the cost principles and administrative requirements in the Uniform Guidance for Federal Awards for federal awards and incremental funding made after December 26, 2014. Therefore, any federal awards and incremental funding received after December 26, 2014, will be subject to different cost principles and administrative requirements than those received prior to that date.

#### *Indirect (F&A) Costs (Section 200.414)*

**.28** The Uniform Guidance for Federal Awards provides guidance regarding indirect costs and indirect cost rates that may be charged to a federal award. Overall the guidance will allow for more consistency as it will require federal agencies to accept a nonfederal entity's negotiated indirect cost rate unless a statute or regulation allows for an exception, or if the federal agency head approves an exception based on justification that has been publically documented. Pass-through entities are required to honor negotiated indirect cost rates, negotiate a rate in accordance with federal guidelines, or provide a minimum flat rate.

**.29** Nonfederal entities will have the option to extend their negotiated indirect cost rate for up to four years. An entity can only use this one-time extension if there have been no major changes to its indirect costs and the entity receives approval from the cognizant agency responsible for the entity's indirect cost rate. If an extension is approved, the nonfederal entity may not request a

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<sup>9</sup> See footnote 2 for information regarding the applicability of the cost principles to hospitals.

rate review until the extension period ends. At the end of the extension period, the nonfederal entity must reapply to negotiate a rate.

.30 Also included in this section is the provision that a nonfederal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10 percent of modified total direct costs, which may be used indefinitely. (There is an exception to this provision for certain nonfederal entities described in Appendix VII to Part 200.) If elected, this methodology must be used consistently for all federal awards until the nonfederal entity chooses to negotiate for a rate. The nonfederal agency may apply to do so at any time.

### **Subpart F, Audit Requirements**

.31 The Uniform Guidance for Federal Awards retains the basic approach to a single audit. Many of the audit requirements in the Uniform Guidance for Federal Awards are very similar, or the same as, those found in Circular A-133. Certain sections may have updated language, whereas others have revised guidance and other details regarding the topic. However, there are a number of other changes to the requirements that will affect the performance of a single audit, including the threshold that determines whether a single audit is required. The following sections present some of the major changes found in the Uniform Guidance for Federal Awards as it relates to the audit requirements.

#### *Single Audit Threshold (Section 200.501)*

.32 Under the Uniform Guidance for Federal Awards, a nonfederal entity that expends \$750,000 or more of federal awards in a fiscal year must have a single audit, except when a program-specific audit is elected. This is an increase from the \$500,000 threshold for a single audit found in Circular A-133. This change will result in fewer single audits being performed because those organizations with federal expenditures of \$500,000 to \$749,999 will no longer be required to have a single audit. The *Federal Register* notice issuance of the Uniform Guidance for Federal Awards notes that this increase in the single audit threshold reduces the audit burden for approximately 5,000 nonfederal entities while maintaining audit coverage of over 99 percent of the federal dollars expended.

#### *Schedule of Expenditures of Federal Awards (Section 200.510(b))*

.33 The required information for the schedule of expenditures of federal awards (SEFA) is expanded to include the

- total federal awards expended as determined in accordance with Section 200.502. (Currently, Circular A-133 allows several of the amounts included in total federal awards expended, such as non-cash assistance, to be shown in the notes to the SEFA instead of on the face of the SEFA.)
- total amount expended for each cluster of programs and names of such clusters.
- total federal awards expended for loan or loan guarantee programs.<sup>10</sup> (This in addition to identifying the balances outstanding at the end of the audit period in the notes to the SEFA.)

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<sup>10</sup> Note that an entity may no longer put the beginning loan balance component of federal awards expended in the notes to the schedule. This information is now required to go on the face of the SEFA.

- total amount provided to subrecipients from each federal program.<sup>11</sup>

In addition, the notes to the SEFA are now required to include whether or not the nonfederal entity elected to use the 10-percent de minimis cost rate.<sup>12</sup>

### *Audit Findings Follow-Up—General (Section 200.511(a))*

**.34** This section provides general information regarding the treatment of audit findings in a single audit. It states that the finding numbers for each finding must be in the format specified in Section 200.516, which is the format required to be used on the data collection form (2014-001, 2014-002, and so on). In addition, because audit findings may be included from multiple years, the fiscal year in which the finding initially occurred must be indicated. Note that the Uniform Guidance for Federal Awards states that the corrective action plan and the summary schedule of prior audit findings must include the findings relating to the financial statements that are required to be reported under *Government Auditing Standards*.

### *Audit Findings Follow-Up, Summary Schedule of Prior Audit Findings (Section 200.511(b))*

**.35** The Uniform Guidance for Federal Awards contains an additional requirement that the summary schedule of prior audit findings include the reasons for a finding's recurrence and the planned corrective action when a finding has not been corrected or fully corrected.

### *Audit Findings Follow-Up, Corrective Action Plan (Section 200.511(c))*

**.36** The Uniform Guidance for Federal Awards clearly states that the auditee's corrective action plan must be a separate document from the schedule of findings and questioned costs.

### *Report Submission (Section 200.512)*

**.37** The main revisions in this section relate to the data collection form and reporting package. Note that some of the detailed information regarding data collection form reporting, such as a listing of the specific data elements found on the data collection form, was removed from this section. Those details are available on the Federal Audit Clearinghouse (FAC) website at <https://harvester.census.gov/facweb/Default.aspx/ddeindex.html> and in the instructions to the data collection form.

**.38** Under the Uniform Guidance for Federal Awards, the FAC continues as the repository of record for audits performed under Subpart F, Audit Requirements. Requirements regarding FAC responsibilities were added and include the requirement that the FAC make the reporting packages publicly available on a website. As a result of this, several revisions were made regarding the report submission requirements related to the data collection form. These revisions include

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<sup>11</sup> The language in Circular A-133 that required a pass-through entity, "to the extent practical," to identify in the SEFA the total amount provided to subrecipients was removed. This is now a required element of the SEFA.

<sup>12</sup> See the information in the section "Indirect (F&A) Costs (Section 200.414)" as found earlier in this publication for more information on the 10-percent de minimis cost rate.

- a requirement that both auditees and auditors must ensure that their respective parts of the reporting package do not include protected PII.
- the addition of a statement on the data collection form that, upon auditee signature, certifies that the reporting package does not include protected PII and authorizes the FAC to make the reporting package and data collection form publicly available.
- the requirements for a subrecipient to submit a reporting package to a pass-through entity and for a pass-through entity to retain reporting packages of a subrecipient were removed (reporting packages will be publicly available on a website maintained by the FAC, thus, providing accessibility to pass-through entities and others).
- an exception for Indian tribes, who can opt not to authorize the FAC to make their reporting package publicly available. If an Indian tribe elects this exception, it is responsible for submitting the reporting package directly to pass-through entities through which it received a federal award and to pass-through entities for which the summary schedule of prior audit findings reported the status of any findings related to federal awards that the pass-through entity provided. Such Indian tribe is also required to make copies of the reporting package available for public inspection.

### *Federal Agency Responsibilities (Section 200.513)*

**.39** Federal awarding agency responsibilities are presented in greater detail in a number of areas, including responsibilities regarding audit finding follow-up. In addition, a requirement was added that agencies designate a "single audit accountable official" from among the senior policy officials of the federal awarding agency. A detailed list of that person's responsibilities can be found in this section. One of those responsibilities is to designate a "key management single audit liaison."

### *Audit Findings (Section 200.516)*

**.40 Questioned costs.** The Uniform Guidance for Federal Awards increases the threshold for reporting questioned costs to \$25,000 (from \$10,000).

**.41 Audit finding detail.** A requirement has been added to identify in the schedule of findings and questioned costs whether an audit finding is a repeat of a finding in the immediate prior audit. In that case, the prior year audit finding number must be included in the finding information. In addition, although a statement of cause was generally included in Circular A-133 audit findings due to a *Government Auditing Standards* requirement, the Uniform Guidance for Federal Awards now explicitly requires this information in audit finding detail. Section 200.516(b)(4) states that audit finding detail must include 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. This requirement is equivalent to the guidance found in *Government Auditing Standards*. Note also that the audit finding detail reported by the auditor should include whether the sampling was a statistically valid sample.

.42 Under the Uniform Guidance for Federal Awards the audit finding reference number must be the same as that used in the data collection form submission (2014-001, 2014-002, and so on). See the section of this alert titled "Federal Audit Clearinghouse—Update" for more information regarding this requirement.

### *Major Program Determination (Section 200.518)*

.43 The guidance relating to major program determination has been revised. As was the case in Circular A-133, the auditor must use a risk-based approach to determine which federal programs are major programs. This includes consideration of current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. The process of identifying major programs to audit remains a four-step process. However, there are a number of changes within the process. The table found in the section "Summary of differences—Determination of major programs" provides a comparison of Circular A-133 requirements to Uniform Guidance for Federal Awards requirements related to the identification of major programs. A discussion of the four steps follows.

**.44 Step 1—Identification of type A programs.** The auditor must identify the larger federal programs, which are labeled type A programs. Federal programs not labeled type A under this step must be labeled type B. See Section 200.518(b)(3) of the Uniform Guidance for Federal Awards for information regarding the consideration of large loan and loan guarantees and clusters of programs when identifying type A programs.

.45 The auditor uses the table found in Section 200.518 as a basis for determining type A programs. A significant change found in the Uniform Guidance for Federal Awards relates to the type A/B threshold, which has been increased to \$750,000 (and which is now the same dollar amount as the audit threshold).

<i>Total Federal Awards Expended</i>	<i>Type A/B Threshold</i>
Equal to \$750,000 but less than or equal to \$25 million	\$750,000
Exceed \$25 million but less than or equal to \$100 million	Total federal awards expended times .03.
Exceed \$100 million but less than or equal to \$1 billion	\$3 million
Exceed \$1 billion but less than or equal to \$10 billion	Total federal awards expended times .003.
Exceed \$10 billion but less than or equal to \$20 billion	\$30 million
Exceed \$20 billion	Total federal awards expended times .0015.

**.46 Step 2—Identify type A programs that are low-risk.** The auditor identifies the low-risk type A programs by considering whether any of the following indicate significantly increased risk that would preclude the program from being low-risk:

- The criteria in Section 200.519(c) (Oversight exercised by federal agencies and pass-through entities)
- The results of audit follow-up
- Any changes in personnel or systems affecting the program

Note that the criteria used in identifying type A programs that are low-risk are modified from those found in Circular A-133. One of the criteria in Circular A-133 that was not retained is the provision that the auditor consider the inherent risk of the program when identifying type A programs that are low-risk. See the table in the "Summary of differences—Determination of major programs" section found later in this alert for more detailed information on the differences between Circular A-133 criteria and Uniform Guidance for Federal Awards criteria as it relates to identifying low-risk type A programs.

**.47** For a type A program to be considered low-risk, it must have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, the program must have not had

- (i) Internal control deficiencies which were identified as material weaknesses in the auditor's report on internal control for major programs as required under §200.515;
- (ii) A modified opinion on the program in the auditor's report on major programs as required under §200.515; or
- (iii) Known or likely questioned costs that exceed five percent of the total federal awards expended for the program.

**.48** The provision that a federal awarding agency may request the OMB to approve that a type A program not be considered low-risk for a certain entity has been retained in the Uniform Guidance for Federal Awards.

**.49 Step 3—Identify type B programs that are high risk.** The auditor identifies type B programs that are high risk using professional judgment and the criteria in Section 200.519. The auditor is not required to identify more high-risk type B programs than at least one fourth (25 percent)<sup>13</sup> of the number of low-risk type A programs that have been identified in step 2. Except for a known material weakness in internal control or compliance problems discussed in certain listed paragraphs of Section 200.519, a single criteria of risk would seldom cause a type B program to be considered high risk. The auditor is encouraged to use an approach that provides an opportunity for different high risk type B programs to be audited as major over a period of time. It is important to note that under the Uniform Guidance for Federal Awards, type B program risk assessment is performed only until the required number of high-risk type B programs is identified.

**.50** The auditor is not expected to perform risk assessments on relatively small federal programs. Under the Uniform Guidance for Federal Awards, the auditor is only required to perform risk assessments on type B programs that exceed 25 percent of the type A threshold determined in step 1.

**.51 Step 4—Select programs to audit as major programs.** The auditor audits the following as major programs:

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<sup>13</sup> When determining whether the 25 percent threshold has been met, any percentage less than 25 percent does not meet the requirement. For example, 24.99 percent or less does not meet the requirement, while 25.00 percent or more does.



- All type A programs not identified as low risk under step 2
- All type B programs identified as high risk under step 3 (that is, those type B programs identified as high risk that number at least one-fourth the number of low-risk type A programs)
- Such additional programs necessary to comply with the percentage of coverage requirements

**.52** The percentage of coverage requirement has been decreased under the Uniform Guidance for Federal Awards. The low risk auditee percentage of coverage is 20 percent (25 percent under Circular A-133). The other than low risk auditee percentage of coverage is 40 percent (50 percent under Circular A-133).

**.53 Summary of differences—Determination of major programs.** There are a number of differences regarding the determination of major programs in the Uniform Guidance for Federal Awards as compared to Circular A-133. Some differences of note are as follows:

<i>Related to Step Number</i>	<i>Circular A-133</i>	<i>Uniform Guidance for Federal Awards</i>
Step 1	Minimum type A/B threshold is <b>\$300,000</b>	Minimum type A/B threshold is <b>\$750,000</b>
Step 1	When a federal program providing loans significantly affects the number or size of type A programs, the auditor should consider this program a type A program and exclude its value in determining other type A programs.	When a <i>federal program providing loans</i> exceeds four times the largest non-loan program, it is considered a large loan program, and the auditor must consider this federal program as a type A program and exclude its values in determining other type A program.  A program is only considered to be a <i>federal program providing loans</i> if the value of the federal awards expended for loans within the program comprises 50 percent or more of the total federal awards expended for the program.
Step 2	A prior year <b>significant deficiency</b> or <b>material weakness</b> in internal control for a major program classifies a program as other than low risk.	A prior year <b>material weakness</b> in internal control for a major program classifies a program as other than low risk.

*(continued)*

<i>Related to Step Number</i>	<i>Circular A-133</i>	<i>Uniform Guidance for Federal Awards</i>
Step 2	<p><b>Identification of low-risk type A programs.</b> The type A program is not low-risk if, in the most recent audit period, it had any audit finding. Items to note include the following:</p> <ul style="list-style-type: none"> <li>• A significant deficiency or material weakness in internal control indicates other-than-low risk.</li> <li>• Auditor judgment is allowed in limited cases.</li> </ul> <p>Auditor considers risk related to</p> <ul style="list-style-type: none"> <li>• federal or pass-through entity (PTE) oversight;</li> <li>• inherent risk;</li> <li>• results of audit follow-up; and</li> <li>• changes in personnel or systems.</li> </ul>	<p><b>Identification of low-risk type A programs.</b> The type A program is not low-risk if, in the most recent audit period, it had certain high-risk audit findings that include the following:</p> <ul style="list-style-type: none"> <li>• Modified opinion</li> <li>• Material weakness in internal control</li> <li>• Known or likely questioned costs exceeding 5% of total program expenditures</li> </ul> <p>Auditor considers risk related to</p> <ul style="list-style-type: none"> <li>• federal or PTE oversight;</li> <li>• results of audit follow-up; and</li> <li>• changes in personnel or systems.</li> </ul>
Step 3	<p><b>Regarding how many type B programs are required to be risk assessed.</b> Under option 1, the auditor is required to perform risk assessments on all type B programs before the selection of major programs in step 4 commences. Under option 2, the auditor is not required to identify more high-risk type B programs than the number of low-risk type A programs. (The exclusion for small type B programs applies to both option 1 and 2.)</p>	<p><b>Regarding how many type B programs are required to be risk assessed.</b> The auditor is required to perform risk assessments on type B programs until the required number of high-risk type B programs have been identified (that is, at least one-fourth ([25%] the number of low-risk type A programs).</p>

<i>Related to Step Number</i>	<i>Circular A-133</i>	<i>Uniform Guidance for Federal Awards</i>
Step 3	<p><b>Exclusion for small type B program risk assessment.</b> The auditor is required to perform risk assessments on type B programs that exceed the larger of \$100,000 or .003 of total federal awards expended when the auditee has less than or equal to \$100 million of federal awards expended, or \$300,000 or .0003 of total federal awards expended when the auditee has more than \$100 million of federal awards expended.</p>	<p><b>Exclusion for small type B program risk assessment.</b> The auditor is required to perform risk assessments on type B programs that exceed 25% of the type A threshold.</p>
Step 4	<p><b>Number of high-risk type B programs to be audited as major.</b> Two options are provided:                      Option 1. The auditor is required to audit as major at least one-half of the high-risk type B programs, not to exceed the number of low-risk type A programs.                      Option 2. The auditor is required to audit as major one high-risk type B program for every low-risk type A program.</p>	<p><b>Number of high-risk type B programs to be audited as major.</b>                      The auditor is required to audit as major the type B programs identified as high risk in step 3.</p>
Step 4	<p><b>Percentage of coverage rule</b> requires <b>50%</b> of federal awards to be audited as major. For low-risk auditees, this number is decreased to <b>25%</b>.</p>	<p><b>Percentage of coverage rule</b> requires <b>40%</b> of federal awards to be audited as major. For low-risk auditees, this number is decreased to <b>20%</b>.</p>
General	<p><b>First year audit exception.</b>                      In a first year audit, the auditor may elect to audit as major all type A programs plus any type B programs necessary to meet the percentage of coverage requirements.</p>	<p>Removed.</p>

*Low Risk Auditee Criteria (Section 200.520)*

.54 The Uniform Guidance for Federal Awards revised the conditions required to be met in order to meet the criteria for low risk auditee status. An

auditee is considered low risk if it meets the following conditions for each of the preceding two audit periods:

- Annual single audits were performed, including timely submission of the data collection form and reporting package to the FAC.
- The auditor's opinion on whether the financial statements were prepared in accordance with generally accepted accounting principles (GAAP) or a basis of accounting required by state law, and the auditor's in-relation-to opinion on the SEFA, were unmodified.
- There were no deficiencies in internal control that were identified as material weaknesses under *Government Auditing Standards*.
- The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.
- None of the federal programs had audit findings from any of the following in either of the two preceding periods in which they were classified as type A programs
  - internal control deficiencies identified as material weaknesses in the auditor's report on internal control for major programs;
  - a modified opinion on a major program in the auditor's report on major programs; or
  - known or likely questioned costs that exceeded 5 percent of total federal awards expended for a type A program during the audit period.

**.55** The provision in Circular A-133 that allowed a nonfederal entity with biennial audits to qualify as a low risk auditee if agreed to in advance by the cognizant or oversight agency was removed. Under the Uniform Guidance for Federal Awards, a nonfederal entity that has biennial audits does not qualify as a low risk auditee.

**.56** The provisions in Circular A-133 that allowed a cognizant or oversight agency to provide a waiver in certain situations were removed.

## Federal Audit Clearinghouse—Update

**.57** The FAC operates on behalf of the OMB to

- make single audit reporting packages available to federal agencies,
- support OMB oversight and assessment of federal award audit requirements,
- maintain a public database of completed audits, and
- help auditees and auditors minimize the reporting burden of complying with Circular A-133 audit requirements.

The Federal Audit Clearinghouse (FAC) provides resources to assist in submitting an audit. FAQs can be accessed at <https://harvester.census.gov/facweb/FAQs.aspx>. Other resources related to single audits are found in the Resources section of the website.

**.58** The Internet Data Entry System (IDES) is the means of submitting a single audit reporting package. In November 2013, a new IDES submission process was launched, which requires re-registration of all users in order to

submit reports on the system. This system no longer requires shared passwords, and each registered user, both auditees and auditors, now has his or her own account, user name, and password. Some items of note regarding the new system are as follows:

- Each user account is linked to one e-mail address. Previous submissions still in the database are accessible using the linked e-mail address.
- Access to certification is restricted to those users identified as a "certifying official."
- Improved templates are available; data can be entered on the template or cut or copied to the template from the user's files.

**.59** Beginning with fiscal year 2014 report submissions, additional requirements are planned regarding the submission of those reports. Fiscal year 2014 audit report submissions must be as follows:

- PDF files with standard formats
- Unlocked and unencrypted (to allow copying and printing)
- Text searchable (85 percent of pages must have searchable text)

**.60** The new IDES has resulted in major changes to the submission process. Users may access the FAQs on the FAC home page for information on a variety of topics and common questions regarding the IDES and submissions. There have been some issues with the new system, and the FAC is working to resolve those issues. Contact the FAC at GOV.FAC.IDES@CENSUS.GOV or 800.253.0696 for assistance with any unresolved issues encountered.

**.61** The data collection form for 2013 submissions was issued in early January 2014. This version of the form was revised in a number of areas, and certain parts of the form look very different. Some of the more significant changes are discussed in the following paragraph. Note that because of the form's late issuance, the OMB granted an extension of all fiscal year 2013 reporting packages due on or before March 31, 2014, until March 31, 2014.

**.62** There is a new federal awards findings page. For every program with findings, each finding will be required to indicate which compliance requirement it relates to along with an indication of whether it is a compliance finding, internal control finding, or other finding. More detailed information is also entered to provide information on the finding and whether there are any questioned costs related to the finding. (For example, indication is now made when the finding relates to a loan or loan guarantee program.) One change that has a significant impact on the reporting of findings is the requirement to use a standard format for single audit finding reference numbers. Although this format was optional for 2013 filings, it is required for audit years beginning in 2014. The required format is the four-digit year, a hyphen, and a three-digit sequence number (for example, 2014-001 and 2014-002). It is important to note that the Uniform Guidance for Federal Awards requires that each audit finding reported in the schedule of findings and questioned costs have a reference number in the format meeting the requirements of the data collection form. Therefore, this numbering system will be used throughout the single audit.

## 2014 Circular A-133 Compliance Supplement

**.63** The Circular A-133 Compliance Supplement (compliance supplement), issued annually by the OMB, plays a key role in a single audit. The compliance

supplement identifies the compliance requirements expected to be considered as part of the compliance audit of major federal programs. For the programs it includes, the compliance supplement provides a source of information for auditors to understand the federal program's objectives, program procedures, and compliance requirements relevant to the audit of the program, as well as audit objectives and suggested audit procedures for determining compliance with these requirements. Part 7, "Guidance for Auditing Programs Not Included in This Compliance Supplement," provides guidance on how to identify the applicable compliance requirements for those major federal programs not included in the compliance supplement and for program-specific audits when a program-specific audit guide is not available.

.64 Each year, agency program information and compliance requirements are updated, as necessary, to keep the compliance supplement current. Typical changes made each year are

- revisions for new, revised, and deleted programs,
- additions or deletions to the types of compliance requirements applicable to a particular program,
- any changes made to clusters of programs,
- federal agency contacts are updated, and
- Appendix VII, "Other OMB Circular A-133 Advisories," is updated.

Appendix V, "List of Changes for the 2014 Compliance Supplement," includes a list of changes to the 2014 compliance supplement that can be referenced for specific change information. It is recommended that the auditor review Appendix V first to note which areas of the compliance supplement have changed. A discussion of some of the more significant areas of change in the 2014 compliance supplement follows.

### ***Part 3—Compliance Requirements, I. Procurement and Suspension and Debarment***

.65 The 2013 compliance supplement modified certain audit procedures in Part 3-I (see procedures 6 and 7) to require the auditor to "review the nonfederal entity's procedures for verifying that an entity with which it plans to enter into a covered transaction and any of its principals is not debarred, suspended, or otherwise excluded." The auditor was then asked to select a sample and test whether the entity followed its procedures. The 2013 compliance supplement was the first time that auditors were asked to test the nonfederal entity's procedures surrounding covered transactions with both entities and principals. OMB issued a Question and Answer (Q&A) document to clarify this matter after the issuance of the 2013 compliance supplement. Consistent with the Q&A document, the 2014 compliance supplement removed the text "and any of its principals" from audit procedure 6.

.66 On a related note, Appendix VII of the 2014 compliance supplement incorporates other guidance that appeared in the Q&A document. This appendix states that when performing the risk-based approach, the auditor is not required to consider audit findings or modifications of audit opinions based solely on the tests for suspended and debarred principals if the auditor can determine that the auditee was otherwise in compliance with the suspension and debarment requirements. Appendix VII goes on to state that it is important for nonfederal entities to note that this is not a new requirement and they still are

required to comply with the "and principals" provision of the suspension and debarment requirements. It also strongly encourages auditors to remind those charged with governance of their responsibilities to ensure that the principals of an entity with which they enter into a covered transaction are not suspended, debarred, or otherwise excluded.

#### ***Part 4—Agency Program Requirements, Department of Homeland Security, Disaster Grants—Public Assistance (Presidentially Declared Disasters)***

.67 Federal Emergency Management Agency (FEMA) guidance was added to CFDA 97.036, "Disaster Grants—Public Assistance," IV, "Other Information" regarding when to include expenditures on the SEFA. This guidance indicates that FEMA expenditures should be recorded on the SEFA when FEMA has approved the nonfederal entity's Project Worksheet (PW), and the federal entity has incurred the eligible expenditures. The guidance includes SEFA reporting examples. The guidance added in this area incorporates guidance previously included in a memorandum from Department of Homeland Security issued in August 2013.

#### ***Internal Control—Part 6***

.68 This section was updated to remove a reference to "principals" and to reference the System for Award Management as the location for information on excluded parties.

#### ***Appendix VI—Agency-Specific and Program-Specific Audit Guides***

.69 This appendix has been renamed "Agency-Specific and Program-Specific Audit Guides" and includes a listing of agency-specific and program-specific audit guides for use by auditors. The listing includes the title of the guide, the date of issuance or latest update, and where to obtain a copy. The prior year's Appendix VI, "Disaster Waivers and Special Provisions Affecting Single Audits," was deleted as OMB removed coverage of disaster waivers and special provisions affecting single audits as a result of deleting all program-specific waivers and other content.

#### ***Appendix VII—Other OMB Circular A-133 Advisories***

##### *American Recovery and Reinvestment Act of 2009*

.70 It is important to note that the section "Effect of Expenditures of ARRA Awards on Major Program Determination" was deleted from Appendix VII of the compliance supplement. This means that Recovery Act programs are no longer treated differently than other programs for major program determination purposes. Also, certain Recovery Act programs were deleted from parts 4 and 5 of the compliance supplement based on their completion or limited amount of funds still subject to audit. If an entity has federal awards expended from these programs they would be treated consistent with any other programs not included in the compliance supplement or not part of a cluster of programs. Examples were added to Appendix VII in the prior year to illustrate the effect of this as it relates to the removal of a Recovery Act program from a cluster:

- The program would not be considered as part of a cluster for periods covered by the compliance supplement, as the supplement does not include the program in a cluster.

- If the program was part of a cluster which was audited as a major program in a prior year, the normal Circular A-133 major program selection criteria and risk-based approach would apply and the program would be considered as audited in that prior year for purposes of major program determination, including consideration of any audit findings.

### *Clarification of Low Risk Auditee Criteria*

.71 Information was added to this section noting that the due date for the 2013 submission of the data collection form was extended to March 31, 2014, for all 2013 fiscal year reporting packages due on or before March 31, 2014. The extension for these reporting packages was automatic, and no approval was necessary. Information added to this section indicates that this automatic extension should be taken into account when determining whether the FAC submission was timely filed.

### *Preview of Compliance Supplement Revisions for 2015*

.72 The compliance supplement will continue to play a big part in a single audit performed under the Uniform Guidance for Federal Awards. Compliance supplement revisions related to the Uniform Guidance for Federal Awards will not appear until the 2015 compliance supplement. However, the 2014 compliance supplement provides a preview of the compliance supplement revisions for 2015. A summary of this information follows.

.73 As mentioned in the *Federal Register* notice published on December 26, 2013, OMB plans to make changes to the 2015 compliance supplement based on available evidence of past findings and the potential impact of non-compliance for each type of compliance requirement. OMB plans to maintain the basic structure of Part 3 of the compliance supplement with the 14 types of compliance requirements format (A through N) and is evaluating whether any of those requirements should be deleted. OMB has begun to conduct outreach with the single audit constituency (internal and external to federal agencies) to explore ways to ensure that the compliance supplement focuses the auditor on testing the compliance requirements most likely to cause improper payments, waste, fraud, or abuse or generate audit findings for which the Federal awarding agency will apply sanctions. Consideration is being given to the following:

- How Part 3 audit objectives and suggested audit procedures and Part 4 and 5 compliance requirements may be revised to relieve audit burden and focus on the areas of greatest risk to Federal awards.
- Whether the types of compliance requirements which require the auditor to test beyond the normal financial system (e.g., performance reporting, special reporting, and certain special tests and provisions) can be reduced where the associated risk and benefits of such tests are minimal.
- Updates to Part 3 for changes under the Uniform Guidance for Federal Awards such as Subpart D—Post Federal Award Requirements, and Subpart E—Cost Principles.
- Updates to Part 6—Internal Control to be consistent with the GAO's "Green Book" (when its revisions are finalized) and COSO.



Based on this outreach, by August 30, 2014, OMB will prepare a revised Part 3 draft for a preliminary vetting in addition to the normal compliance supplement annual vetting of changes in December 2014–January 2015.

### ***Final Note Regarding the 2014 Compliance Supplement***

.74 The compliance supplement plays a key role in a compliance audit performed under Circular A-133. It is imperative that audit staff understand the compliance requirement information, both in general and as it relates to a particular federal program, and use the guidance properly. Because changes are made to the compliance supplement each year, it is important that audit staff understand what has changed in the version being used. A thorough review of Appendix V is a good place to start. Also, be sure that audit staff use the correct version of the compliance supplement for the fiscal year under audit.

.75 The 2014 compliance supplement is available on the OMB's website at [www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2014](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2014). The 2014 compliance supplement, which supersedes the 2013 compliance supplement, applies to audits of fiscal years beginning after June 30, 2013.

## **Department of Housing and Urban Development— For-Profit Update**

### ***Real Estate Assessment Center***

.76 The Department of Housing and Urban Development (HUD) has issued a revised Real Estate Assessment Center *Industry User Guide for the Financial Assessment Subsystem—Multifamily Housing* (FASSUB) (FASSUB 7.2.1.0). The revised guide, updated as of February 14, 2014, is the result of an update to the FASSUB system to allow profit-motivated and limited distribution owners receiving less than \$500,000 in federal financial assistance to submit owner-certified financial statements in accordance with Housing Notice H 2013-23.

### ***Lender Electronic Assessment Portal***

.77 The Federal Housing Administration (FHA) is enhancing the lender recertification process. Lenders are required to utilize the Lender Electronic Assessment Portal (LEAP), which was deployed on May 27, 2014, as the sole system to submit the annual certification, recertification fee, and financial statements. LEAP will be used by all of FHA's approximately 2,900 approved lenders for their annual recertifications, including an estimated 2,500 in the month following deployment. Lenders with a December 2013, January 2014, or February 2014 fiscal year end were required to complete all recertification steps in LEAP no later than 30 days from the system deployment date of May 27, 2014.

.78 The LEAP information page posted two transition documents, "Title I and II Consolidation Final Lender ID Change List," and "Cash Flow and EFT Account Detail." The LEAP 3.0 Users Guide is now available on the LEAP information page.

## **USDA Updates Rural Utilities Services Audit Guidance**

.79 On February 7, 2014, the U.S. Department of Agriculture (USDA) issued a memorandum, "Clarification of RUS 1773 Audit Requirements," that

clarifies the audit requirements for Rural Utility Services (RUS) loan and grant recipients under 7 CFR 1773, Policy on Audit of RUS Borrowers (Part 1773). Many of the recipients are for-profit organizations. In an audit of these entities, in addition to a financial statement audit under both GAAS and *Government Auditing Standards*, Part 1773 also requires the auditor to issue a management letter that includes certain required information. The RUS memorandum indicates that the current management letter described in Part 1773 is being replaced with "Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements," issued under AU-C section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (AICPA, *Professional Standards*). RUS states that this change is being made to conform to AICPA clarified auditing standards and the 2011 revision of *Government Auditing Standards*.

**.80** RUS developed an illustration of the report to be used. That report illustration follows the memorandum referenced in the first paragraph of this section.

**.81** A recent Government Audit Quality Center (GAQC) alert noted that the GAQC has made RUS aware that the last paragraph of the report illustration does not comply with AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication* (AICPA, *Professional Standards*). Therefore, auditors should ensure that the last paragraph of the report issued includes the following purpose alert language:

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, as clarified in the RUS policy memorandum dated February 7, 2014. Accordingly, this report is not suitable for any other purpose.

The memorandum indicates that RUS will consolidate the preceding revisions into a revised Part 1773 in the future.

## Audit Developments

### Statement on Auditing Standards No. 128, *Using the Work of Internal Auditors*

**.82** Statement on Auditing Standards (SAS) No. 128, *Using the Work of Internal Auditors* (AICPA, *Professional Standards*, AU-C sec. 610), was issued in February 2014. SAS No. 128 addresses the external auditor's responsibility when using the work of internal auditors. This includes

- using the work of the internal audit function in obtaining audit evidence, and
- using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor.

It is effective for audits of financial statements for periods ending on or after December 15, 2014. The issuance of this guidance completes the clarity redrafting of AU sections in AICPA *Professional Standards*. SAS No. 128 supersedes the guidance in AU section 322 and AU-C section 610, *The Auditor's*

*Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*), upon its effective date.

## Frameworks for Internal Control

.83 GAAS, *Government Auditing Standards*, the Circular A-133 compliance supplement, and the Uniform Guidance for Federal Awards all refer to the internal control framework document issued by COSO titled *Internal Control—Integrated Framework*<sup>14</sup> as a source of information regarding the components and objectives of internal control. *Government Auditing Standards* and the Uniform Guidance for Federal Awards also refer to the guidance found in the Government Accountability Office's (GAO's) Green Book as a source of internal control guidance. The Green Book provides definitions and fundamental concepts pertaining to internal control at the federal level, and contains actual requirements for those at the federal government level. While organizations at other levels of government and other organizations would not be subject to any Green Book requirements, the concepts in the Green Book may be useful for such organizations. The Green Book is currently being revised. However, it is expected that the final revisions to the Green Book will contain a framework that is consistent with the revised COSO framework that is tailored to a governmental environment.

## Government Auditing Standards—General Standards

.84 The 2011 revision of *Government Auditing Standards* changed the requirements regarding independence in an audit performed under those standards. Although AICPA standards regarding independence are very similar, there are differences. This is a reminder that it is important for the auditor to use the guidance found in *Government Auditing Standards* when assessing and documenting independence in an audit performed in accordance with those standards.

.85 In addition, when an auditor is performing audits in accordance with *Government Auditing Standards*, it is important to obtain the proper amount of qualifying continuing professional education (CPE) to comply with the competency standard. In each two-year period, any auditor performing work on an audit performed under *Government Auditing Standards* is required to obtain 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the auditee operates. This includes internal specialists performing work in accordance with *Government Auditing Standards* as part of the audit team, including directing, performing audit procedures, or reporting on a *Government Auditing Standards* audit. Because internal specialists apply specialized knowledge in government audits, training in their areas of specialization qualify under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

.86 Those auditors who are involved in planning, directing, or reporting on *Government Auditing Standards* audits, or those who charge more than 20 percent of their time annually to those audits, should obtain at least an additional 56 hours of CPE that enhances the auditor's professional proficiency to perform audits. Note that not all CPE courses qualify for this category

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<sup>14</sup> See footnote 6.

(for example, most tax courses would not qualify). When documenting your CPE for the year, you should document whether the CPE qualifies for the 24 or 56 hour requirement and that you are in compliance with the requirements.

.87 Chapter 2, "*Government Auditing Standards—Ethical Principles and General Standards*," of the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* provides information on both the independence and CPE requirements of *Government Auditing Standards*. Also available is the GAO publication "Guidance on GAGAS Requirements for Continuing Professional Education," which is available at [www.gao.gov/assets/80/76894.pdf](http://www.gao.gov/assets/80/76894.pdf).<sup>15</sup>

### **Government Auditing Standards—Peer Review Rating Update**

.88 On January 13, 2014, the GAO released a document titled "Guidance for Understanding the New Peer Review Ratings." This document notes that the 2011 revision of *Government Auditing Standards* modified the reporting used to communicate the results of a peer review. Specifically, the 2011 revision of *Government Auditing Standards* added a requirement to include one of three possible ratings based on the opinion on the audit organization's system of quality control. It goes on to explain that this did not change the thresholds for reporting. The comparison of the new ratings with the prior reporting follows:

<i>Three levels of reporting as found in previous revisions of Government Auditing Standards (2007 and prior)</i>	<i>Three levels of reporting under the 2011 Revision of Government Auditing Standards</i>
Unmodified opinion	Pass
Modified opinion	Pass with deficiencies
Adverse opinion	Fail

The document, available on the GAO website at [www.gao.gov/assets/670/660187.pdf](http://www.gao.gov/assets/670/660187.pdf), also provides definitions for terms used in the guidance and a flowchart that may be used by peer reviewers to assist in determining the type of report to issue.

### **Summary of Matters Found in Recent Peer Reviews**

.89 The AICPA Peer Review division recently accumulated a listing of matters found during peer reviews of single audit engagements. The listing includes issues related to the main areas of reporting, documentation, and general matters. A summary of these issues follows.

#### **Reporting**

.90 A number of required elements were omitted in the reporting required under Circular A-133 as follows:

- The required wording "Independent" was missing from report title.

<sup>15</sup> The GAO has indicated that this document, published in April 2005, has not been outdated by the 2011 revision of *Government Auditing Standards*.

- Reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs was not made.
- The clause stating that the entity's responses were not audited and that the auditor expresses no opinion on those responses (as related to the Schedule of Findings and Questioned Costs) was missing in the reporting.
- Reporting, or referring to the reporting on, supplementary information and required supplementary information was not done.

**.91** As it relates to the SEFA, certain information was not properly reported and included the following errors:

- Missing or improper identification of Catalog of Federal Domestic Assistance (CFDA) numbers or awards
- Failure to total programs with same CFDA numbers
- Failure to properly present programs as clusters

### ***Documentation***

**.92** A number of issues were found as they relate to documentation. They included the following:

- Failure to properly document the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor
- Failure to obtain the applicable written management representations from auditee management tailored to the entity and governmental audit regarding federal awards
- Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each compliance requirement and major program
- Failure to document the testing of controls and compliance for the relevant assertions related to each compliance requirement with a direct and material effect for the major program
- Improper identification of an auditee as low risk when the previous two data collection forms were not timely filed

### ***General***

**.93** Some matters were identified that were not specific to a single audit. They included the following:

- Failure to update the audit report to conform to the AICPA's auditing standards as updated for clarity.
- Failure to document a sufficient audit plan to consider fraud risk and comprehensive risk assessment procedures, including failure to link the risk assessment to the audit procedures performed.
- Failure to adequately document procedures performed over balances and transactions in the financial statement audit.

## On the Horizon

.94 Auditors should keep abreast of developments and upcoming guidance that may affect their engagements. Information on, and copies of, outstanding exposure drafts may be obtained from the various standard-setters' websites. These websites contain in-depth information about proposed standards and other projects in the pipeline. Readers should refer to the *General Audit Risk Alert—2013/14* (product nos. ARAGEN13P, ARAGEN13E, or WGE-XX) for further information. The "Resource Central" section of this alert provides additional publications and other resources that may assist auditors in keeping up-to-date on current developments.

### AICPA's Ethics Codification Project

.95 The AICPA's Professional Ethics Executive Committee (PEEC) restructured and codified the AICPA Code of Professional Conduct (code) so that members and other users of the code can apply the rules and reach appropriate conclusions more easily and intuitively. This is referred to as the *AICPA Ethics Codification Project*.

.96 PEEC believes it was able to maintain the substance of the existing AICPA ethics standards through this process and limited substantive changes to certain specific areas that were in need of revision. However, all numeric citations and titles of interpretations have changed. In addition, the ethics rulings are no longer in a question and answer format but, rather, have been drafted as interpretations, incorporated into interpretations as examples, or deleted where deemed appropriate. For example,

- Rule 101, *Independence* [ET section 101.01] is referred to as the "Independence Rule" [ET 1.200.001] in the revised code.
- the content from the ethics ruling titled "Financial Services Company Client has Custody of a Member's Assets" [ET section 191.081--082] is incorporated into the "Brokerage and Other Accounts" interpretation [ET 1.255.020] found under the subtopic "Depository, Brokerage, and Other Accounts" [ET 1.255] of the "Independence" topic [ET 1.200].

The revised code is effective December 15, 2014, and is available at <http://pub.aicpa.org/codeofconduct/Ethics.aspx>.

.97 To assist users in locating in the revised code content from the prior code, PEEC created a mapping document. The mapping document is available in Excel format at [www.aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Mapping.xlsx](http://www.aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/Mapping.xlsx) and can also be found in appendix D in the revised code.

### AICPA's Attest Clarity Project

.98 The Auditing Standards Board is currently clarifying the Statements on Standards for Attestation Engagements (SSAEs), commonly known as attestation standards. The work on this project is ongoing, and more information is available on the Attest Clarity Project page of the AICPA website. As part of this project, it has been determined that AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*), will be clarified and reissued as a SAS because it addresses an examination of internal

control that is integrated with an audit of financial statements. The Auditing Standards Board intends to develop a generic internal control attestation standard that will provide guidance to practitioners engaged to examine an entity's internal control over financial reporting, operations, or compliance.

## Digital Accountability and Transparency Act

.99 On May 9, 2014, the president signed the Digital Accountability and Transparency Act (DATA Act). The DATA Act requires that everything the federal government spends at the appropriations account level be published on [www.usaspending.gov](http://www.usaspending.gov), except for classified material and information that wouldn't be revealed in response to a Freedom of Information Request. The implementation of the DATA Act will occur over approximately five years, due to there being a number of steps within the process of implementing the act.

## Resource Central

.100 The following are various resources that practitioners who perform financial statement audits under *Government Auditing Standards* and compliance audits under Circular A-133 may find beneficial.

## Publications

.101 Practitioners may find the following publications useful. Choose the format best for you—print, e-book, or online.

- Audit Guide *Government Auditing Standards and Circular A-133 Audits* (2014) (product nos. AAGGAS14P [paperback], AAGGAS14E [ebook], or WRF-XX [online])
- Audit and Accounting Guide *Not-For-Profit Entities* (2014) (product nos. AAGNFP14P [paperback], AAGNFP14E [ebook], or WNP-XX [online])
- Audit and Accounting Guide *State and Local Governments* (2014) (product nos. AAGSLG14P [paperback], AAGSLG14E [ebook], or WGG-XX [online])
- Audit and Accounting Guide *Health Care Entities* (2013) (product nos. AAGHCO13P [paperback], AAGHCO13E [ebook], or WHC-XX [online])<sup>16</sup>
- Audit Risk Alert *General Audit Risk Alert* (product nos. ARAGEN13P [paperback], ARAGEN13E [ebook], or WGE-XX [online])
- Audit Risk Alert *Not-for-Profit Entities Industry Developments—2014* (product nos. ARANFP14P [paperback], ARANFP14E [ebook], or WNP-XX [online])
- Audit Risk Alert *State and Local Governmental Developments—2014* (product no. ARASLG14P [paperback], ARASLG14E [ebook], and WGG-XX [online])
- Audit Risk Alert *Health Care Industry Developments—2013/14* (product no. ARAHCO13P [paperback], ARAHCO13E [ebook], or WHC-XX [online])<sup>17</sup>

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<sup>16</sup> An updated version of this guide and Audit Risk Alert is scheduled to be available in November 2014.

<sup>17</sup> See footnote 16.

**.102** A practice aid, *2011 Yellow Book Independence—Nonaudit Services Documentation*, has been developed by the GAQC to assist an auditor in evaluating nonaudit services and the effect of performing such services on auditor independence under the 2011 revision of *Government Auditing Standards*. Available with the practice aid is an electronic template that auditors can prepare and save to meet the Yellow Book documentation requirements when identifying and evaluating threats to independence relating to nonaudit services. That is, auditors can input their responses to various independence considerations outlined in the template for each engagement. The template can then be easily saved and used as part of the audit documentation. This publication is available at [www.cpa2biz.com](http://www.cpa2biz.com) (product no. APAYBI12D [on-demand]).

**.103** AICPA members can access the practice aid without the electronic supplement at no cost by visiting the GAQC website. You must be logged in to access the document.

## Continuing Professional Education

**.104** The AICPA offers a number of CPE courses that are valuable to CPAs working in public practice and industry, including many that are specifically related to audits performed under *Government Auditing Standards* and compliance audits performed under Circular A-133. Visit [www.cpa2biz.com](http://www.cpa2biz.com) for a complete list of CPE courses.

### Online CPE

**.105** AICPA CPEExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPEExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at [www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Pages/C2BOnlineSubscriptionsPage/Section2/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Pages/C2BOnlineSubscriptionsPage/Section2/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp) (product no. BYT-XX).

### Webcasts

**.106** Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit [www.cpa2biz.com/AST/AICPA\\_CPA2BIZ\\_Browse/Store/Webcasts.jsp](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/Store/Webcasts.jsp).

## Industry Conferences

**.107** The AICPA sponsors four annual conferences that include a focus on *Government Auditing Standards* and OMB Circular A-133 topics that are held in the summer and fall of each year.

**.108** The National Governmental Accounting and Auditing Update Conference (GAAC) EAST will be held August 11–12, 2014, in Washington, D.C., and its counterpart, GAAC WEST, will be held September 22–23, 2014, in Denver, Colorado. These conferences are designed for CPAs working in federal, state, and local government; public practitioners performing single audits; and



regulators who need to be aware of emerging developments. Attending one of these conferences is a great way to receive timely guidance regarding federal (Washington, D.C. location only), state, and local areas, along with practical advice on how to handle new legislation and standards from key government officials and representatives of the accounting profession, including the standard-setters themselves.

**.109** The AICPA National Governmental and Not-for-Profit Training Program will be held October 20–22, 2014, in Las Vegas, Nevada. If you need hands-on training and are a CPA in public practice or a governmental or not-for-profit staffer, then this conference is for you. You'll hear directly from the standard-setters and industry leaders on a variety of topics, including developments in governmental accounting and auditing, financial statement reporting, the latest in proposed regulations and laws on the local, state, and federal government levels as well as those affecting the not-for-profit sector.

**.110** The National Not-for-Profit Industry Conference will be held June 15–17, 2015, in Washington, D.C. The conference offers a wide range of topics geared to not-for-profit professionals at every level: tax, management, audit and accounting, fundraising, and regulatory. For further information about the conferences, call 888.777.7077 or visit [www.cpa2biz.com](http://www.cpa2biz.com).

## **Member Service Center**

**.111** To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Center Operations at 888.777.7077.

## **Hotlines**

### ***Government Accountability Office***

**.112** For technical or practice questions regarding the Yellow Book, please call 202.512.9535 or e-mail [yellowbook@gao.gov](mailto:yellowbook@gao.gov).

### ***Accounting and Auditing Technical Hotline***

**.113** Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at [www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx](http://www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx). Members can also e-mail questions to [aahotline@aicpa.org](mailto:aahotline@aicpa.org). Additionally, members can submit questions by completing a Technical Inquiry form found on the same website.

### ***Ethics Hotline***

**.114** In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 or by e-mail at [ethics@aicpa.org](mailto:ethics@aicpa.org).

## AICPA Online Professional Library: Accounting and Auditing Literature

.115 The AICPA has created your core accounting and auditing library online. The AICPA Online Professional Library is now customizable to suit your preferences or your firm's needs. You can also sign up for access to the entire library. Get access—anytime, anywhere—to FASB *Accounting Standards Codification*<sup>®</sup>; the AICPA's latest *Professional Standards, Technical Practice Aids*, Audit and Accounting Guides, Audit Risk Alerts, *Accounting Trends & Techniques*; and more. To subscribe to this essential online service for accounting professionals, visit [www.cpa2biz.com](http://www.cpa2biz.com).

## Financial Reporting Center of AICPA.org

.116 CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the Financial Reporting Center (FRC) to support you in the execution of high-quality financial reporting. This center provides exclusive members-only resources for the entire financial reporting process and can be accessed at the FRC interest area on the [aicpa.org](http://aicpa.org) website.

.117 The FRC provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of engagements, including compilation and review, audit and attest, and assurance and advisory.

## AICPA GAQC

.118 The GAQC is a voluntary membership center for CPA firms and state audit organizations (SAO), designed to improve the quality and value of governmental audits. For the purposes of the GAQC, governmental audits are performed under *Government Auditing Standards* and are audits and attestation engagements of federal, state, or local governments; not-for-profit entities; and certain for-profit organizations, such as housing projects and colleges and universities that participate in governmental programs or receive governmental financial assistance.

.119 The mission of the GAQC is to

- raise awareness about the importance of governmental audits,
- serve as a comprehensive resource provider on governmental audits for member firms and SAOs,
- create a community of firms and SAOs that demonstrates a commitment to governmental audit quality,
- list member firms and SAOs to enable purchasers of governmental audit services to identify GAQC members, and
- provide information about the GAQC's activities to other governmental audit stakeholders.

The GAQC keeps members informed about the latest developments through a number of resources that provides them with tools and information to help them better manage their audit practice. CPA firms and state audit organizations that join demonstrate their commitment to audit quality by agreeing to adhere to certain membership requirements.

.120 The GAQC is celebrating its 10th anniversary. The center has been in existence since September 2004. Since its launch, center membership has grown to 25 state audit organizations and approximately 1,800 firms from 50 states, the District of Columbia, and Puerto Rico. The CPA firm members of the GAQC account for over 91 percent of the total federal expenditures covered in single audits as found in the FAC (<http://harvester.census.gov/fac/>) for the year 2010 (the latest year with complete submission data). The GAQC's focus is to promote the highest quality audits and save members time by providing a centralized place to find information that they need, when they need it, to maximize quality and practice success.

.121 Center resources and benefits include the following:

- E-mail alerts with the latest audit and regulatory developments, including information on the revisions relating to the Uniform Guidance for Federal Awards as set forth by the OMB.
- Exclusive webcasts and webinars on compliance auditing and timely topics relevant to governmental and not-for-profit financial statement audits (optional CPE is available for a small fee, and events are archived online).
- Dedicated GAQC website on the [aicpa.org](http://aicpa.org) website with resources, community, events, products, and a complete listing of GAQC members in each state.
- Single audit practice aids and tools.
- Web events and CPE on topics relevant to single audits, available at no cost to members.
- An Auditee Resource Center containing practice aids and other resources to keep auditees well informed about audit requirements and other issues related to their audits.
- A GASB Matters page, which lists resources found on the website related to GASB topics of current interest.
- Advocacy regarding issues related to the audit and regulatory environment facing auditors.
- A marketing toolkit for member firms.
- Savings on professional liability insurance.

Whereas some of the GAQC's resources are available only to members, other resources are available to the public and can be accessed from the GAQC website. For more information about the GAQC, visit the GAQC website at [www.aicpa.org/GAQC](http://www.aicpa.org/GAQC).

**Help Desk:** With all the current revisions to standards related to single audits, your CPA firm or SAO should consider joining the center. To enroll or learn more about the GAQC, including details on the membership requirements and fees and for a preview of member benefits, go to the membership page of the GAQC at [www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/MEMBERSHIP/Pages/default.aspx](http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/MEMBERSHIP/Pages/default.aspx) or e-mail the GAQC staff at [GAQC@aicpa.org](mailto:GAQC@aicpa.org).

### **GAQC Executive Committee**

.122 The GAQC is governed by an executive committee that establishes general policies of the center and oversees its activities. It also establishes membership requirements of the center, subject to AICPA Board of Directors approval. Members of the executive committee must be members of the AICPA. For more information, visit [www.aicpa.org/interestareas/governmentalauditquality/community/pages/governmental%20audit%20quality%20executive%20committee.aspx](http://www.aicpa.org/interestareas/governmentalauditquality/community/pages/governmental%20audit%20quality%20executive%20committee.aspx).

### **AICPA GAQC Auditee Resource Center**

.123 Although the GAQC is a voluntary membership center intended primarily to assist CPA firms and state audit organizations in improving their audit quality, the GAQC also hosts an Auditee Resource Center, which is open to the public and is intended for procurers of audit services (auditees). Information found on this section of the GAQC website relates to auditees that are required to undergo audits performed under *Government Auditing Standards*. Those audits include financial statement audits of governments and not-for-profit entities; Yellow Book audits; and compliance audits including audits performed under Circular A-133 (referred to as *single audits*), HUD audits, and other compliance audits of for-profit entities.

.124 Although auditors are ultimately responsible for providing high-quality audit services, the GAQC recognizes that auditees play a key role in the audit process and are an important factor in the audit quality equation. Well-informed auditees with strong governance structures increase the likelihood of high-quality audits and more efficient audits. Why might that be? Experience has shown that these auditees generally spend more time considering the qualifications of a potential auditor during the hiring process and evaluating the reasonableness of an auditor's anticipated hours in relation to the proposed fee based on the work to be performed. Further, these auditees have a stronger understanding about the audit requirements that apply to them; are better prepared for their audits; and more clearly understand their role in the audit process.

.125 To assist auditees with the audit process, the GAQC Auditee Resource Center includes information, tools, practice aids, and other resources that should be of interest and benefit to auditees. Additionally, everything available in the Auditee Resource Center is open to the public. Some of the information available at the center includes resources that the GAQC also makes available to its auditor members. Further, other auditee-specific resources have been developed and are available at the center, and more will be added on a go-forward basis. Auditors should let their clients know about this resource.

### **AICPA Industry Expert Panels**

#### ***AICPA Industry Expert Panel—State and Local Governments***

.126 The State and Local Government Expert Panel is an AICPA volunteer group whose purpose is to identify state and local government financial reporting and auditing issues and to work with appropriate bodies for resolutions benefiting the public interest; conduct liaison activities with GASB, regulators such as the GAO and OMB, and applicable industry associations; and advise and assist in the development of AICPA products and services related to state and local government audits. For information about the activities

of the State and Local Government Expert Panel, visit the panel's web page in the "Industry Insights" section of the FRC at [www.aicpa.org/InterestAreas/FRC/IndustryInsights/Pages/Expert\\_Panel\\_State\\_and\\_Local\\_Governments.aspx](http://www.aicpa.org/InterestAreas/FRC/IndustryInsights/Pages/Expert_Panel_State_and_Local_Governments.aspx).

### **AICPA Industry Expert Panel—Not-for-Profit Entities**

.127 The AICPA Not-for-Profit Entities Industry Expert Panel assists those working in the industry by identifying financial reporting and auditing issues within the industry for which guidance from standard-setting bodies is needed and by working with appropriate bodies having authority over such standards in finding resolutions to the issues. For more information about the activities of the Not-for-Profit Entities Expert Panel, visit the panel's web page in the "Industry Insights" section of the FRC at [www.aicpa.org/InterestAreas/FRC/IndustryInsights/Pages/Expert\\_Panel\\_Not\\_for\\_Profit\\_Entities.aspx](http://www.aicpa.org/InterestAreas/FRC/IndustryInsights/Pages/Expert_Panel_Not_for_Profit_Entities.aspx).

### **Industry Websites**

.128 The Internet covers a vast amount of information that may be valuable to auditors performing single audits, including current industry trends and developments. Some of the more relevant sites for auditors performing single audits include those shown in the following table.

<i>Organization</i>	<i>Website</i>
AICPA	<a href="http://www.aicpa.org">www.aicpa.org</a> <a href="http://www.cpa2biz.com">www.cpa2biz.com</a> <a href="http://www.ifrs.com">www.ifrs.com</a>
Catalog of Federal Domestic Assistance (CFDA)	<a href="http://www.cfda.gov">www.cfda.gov</a>
Council of Executive Councils, Chief Financial Officers Council (COFAR)	<a href="http://www.cfo.gov/cofar/">www.cfo.gov/cofar/</a>
Department of Education: Office of Inspector General Non-Federal Audit Team	<a href="http://www2.ed.gov/about/offices/list/oig/nonfed/nfteam.html">www2.ed.gov/about/offices/list/oig/nonfed/nfteam.html</a>
Department of Health and Human Services (HHS): Office of Inspector General	<a href="http://www.oig.hhs.gov">www.oig.hhs.gov</a>
Department of Housing and Urban Development (HUD): Office of Inspector General	<a href="http://www.hudoig.gov">www.hudoig.gov</a>
Federal Audit Clearinghouse (FAC)	<a href="http://harvester.census.gov/fac/">http://harvester.census.gov/fac/</a>
FFATA Subaward Reporting System (FSRS)	<a href="http://www.fsrs.gov">www.fsrs.gov</a>
The Federal Reserve Board	<a href="http://www.federalreserve.gov">www.federalreserve.gov</a>
FASB	<a href="http://www.fasb.org">www.fasb.org</a>

(continued)

<i>Organization</i>	<i>Website</i>
FirstGov	<a href="http://www.firstgov.gov">www.firstgov.gov</a>
Government Accountability Office (GAO)	<a href="http://www.gao.gov">www.gao.gov</a> 2011 Revision of <i>Government Auditing Standards</i> : <a href="http://www.gao.gov/yellowbook">www.gao.gov/yellowbook</a> Green Book: <a href="http://www.gao.gov/greenbook/overview">www.gao.gov/greenbook/overview</a>
GASB	<a href="http://www.gasb.org">www.gasb.org</a>
Governmental Audit Quality Center	<a href="http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx">www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx</a>
Government Printing Office Access	<a href="http://www.gpo.gov/fdsys/">www.gpo.gov/fdsys/</a>
Grants.gov	<a href="http://www.grants.gov">www.grants.gov</a>
IGnet	<a href="http://www.ignet.gov/">www.ignet.gov/</a>
Office of Management and Budget (OMB)	<a href="http://www.whitehouse.gov/omb/">www.whitehouse.gov/omb/</a> OMB circulars: <a href="http://www.whitehouse.gov/omb/circulars/">www.whitehouse.gov/omb/circulars/</a> Electronic CFR version <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> : <a href="http://www.ecfr.gov/cgi-bin/text-idx?SID=704835d27377ef5213a51c149de40cab&amp;node=2:1.1.2.2.1&amp;rgn=div5">www.ecfr.gov/cgi-bin/text-idx?SID=704835d27377ef5213a51c149de40cab&amp;node=2:1.1.2.2.1&amp;rgn=div5</a>
Private Company Financial Reporting Committee	<a href="http://www.pcfr.org">www.pcfr.org</a>
PCAOB	<a href="http://www.pcaob.org">www.pcaob.org</a>
USA.gov	<a href="http://www.usa.gov">www.usa.gov</a>
USAspending.gov	<a href="http://www.usaspending.gov">www.usaspending.gov</a>

The governmental practices of some of the larger CPA firms also may contain industry-specific auditing and accounting information that is helpful to auditors.

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