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## Disclaimer

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## Overview

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- The New Yellow Book
- Revisions to the Uniform Guidance
- Grant Efficiency Agreements Transparency (GREAT) Act
- Coronavirus Aid, Relief, and Economic Security (CARES) Act



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## The New Yellow Book

### **General**

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- Revised *Government Auditing Standards* (GAS) in July 2018 to update the 2011 version
- Reorganized to make it easier to find relevant rules when performing research
- Significant changes to evaluating the non-audit services and threats to independence
- Clarifications on competence and CPE requirements
- Expands on 2011 concepts of waste and abuse
- Adds standards for review engagements
- Effective Dates – For the period ending on or after:
  - For the period ending on or after *June 30, 2020* – Financial statement audits and reviews, and attestation engagements
  - For performance audits beginning on or after July 1, 2019



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# The New Yellow Book

## Reorganization

Table of contents:

<i>2011 revision</i>		
Chapter 1 Government Auditing: Foundation and Ethical Principles	Introduction	4
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<i>2018 revision</i>		
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# The New Yellow Book

## Independence and Non-audit Services

- Non-audit services should be evaluated to determine if they create a threat to independence
- The evaluation should be documented and follow the existing GAS independence framework:
  - identify any threats, including the performance of non-audit services
  - evaluate the significance of the threat and consider the skills, knowledge, and experience of client personnel charged with overseeing the service
  - if the threat is deemed significant, then a safeguard must be implemented
- Preparing financial statements from a client-provided TB or underlying records is *always* considered a significant threat to the auditors' independence.

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## The New Yellow Book

### Independence and Non-audit Services

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Common safeguards considered to be effective include :

- Assigning separate engagement personnel for audit and nonaudit services
- Obtaining secondary reviews by personnel not involved in planning or supervising the engagement
- Educating management on the nonaudit services performed
- Requiring such engagements to undergo an engagement quality control review (EQCR)
- Having an independent organization perform a secondary review of the file or reports
- Having a partner not involved with planning or supervising the audit engagement review the financial statements before releasing them
- Educating management so they are in a position to review and approve the financial statements
- Requesting that the audited entity complete a disclosure checklist as part of its overall review.



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## The New Yellow Book

### Independence and Non-audit Services

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Certain non-audit services automatically impair independence such that no safeguard could possibly be applied to eliminate this threat including:

- Keeping the original books and records of the entity
- Changing journal entries, account coding, or classification
- Authorizing or approving the entity's transactions
- Preparing or making changes to source documents without management approval.



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## The New Yellow Book

### Independence and Non-audit Services

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Other frequently performed nonaudit services that *do not automatically* impair independence should be evaluated to determine if they create significant threats. These services include the following:

- Making cash to accrual conversions
- Performing reconciliations
- Preparing Form 990 and other taxes
- Maintaining depreciation schedules
- Recording transactions in the entity's books that management has approved
- Preparing certain line items on financial statements based on information in the trial balance
- Posting entries that management has approved to the entity's trial balance.



### Polling Question #1

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## The New Yellow Book

### Independence and Non-audit Services

Key factors in determining whether a non-service should be considered a threat to independence:

- the extent to which the outcome of the service could have a material effect on the financial statements,
- the degree of subjectivity in determining amounts, and
- the extent of the management's involvement in determining significant matters of judgment.



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## The New Yellow Book

### CPE Requirements

<i>Required Subject Matter</i>	<i>Hours required to be completed in</i>		
	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
Directly related to the government environment, government auditing, or the specific environment in which the audited entity operates.	14	10	24
Directly enhance professional expertise to conduct engagements	21	35	56
<b>Total hours with a minimum of 20 hours in each year</b>	<b>35</b>	<b>45</b>	<b>80</b>

- Auditors who plan, direct, perform, and report on an engagement in accordance with GAS should develop their competency by meeting the above requirements
- Auditors must collectively possess competence for the engagement's objectives and GAS before beginning work on the engagement.



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## The New Yellow Book

### Other Changes

- The revised standards add a definition for “waste” as the act of using or expending resources carelessly, extravagantly, or to no purpose
- Auditors are not responsible for detecting waste or abuse, the standards emphasize the following:
  - waste or abuse should be examined in the context of a possible internal control weakness that needs to be reported.
  - the discovery of waste or abuse may indicate that fraud or noncompliance with laws, regulations, contracts, and grant agreements
- The revised Yellow Book also adds standards for review engagements in accordance with the following AICPA standards:
  - SSAE 18 - *Attestation Standards: Clarification and Recodification*, and
  - SSARS 21 - *Statements on Standards for Accounting and Review Services: Clarification and Recodification*.



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## Revisions to the Uniform Guidance

### General

- The Uniform Guidance was originally created to reduce administrative burden on award recipients and guard against the risk of waste and misuse of federal funds.
- The OMB is required to review the Uniform Guidance every five years.
- The January 22, 2020 proposed update has three primary objectives:
  - Support implementation of the Cross Agency Priority (CAP) Goals and other Administration priorities
  - Meet statutory requirements and align Title 2 with other recent regulations
  - Clarify areas of misinterpretation



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## Revisions to the Uniform Guidance

### Procurement

- Procurement methods to be grouped into two separate categories: *formal* and *informal*.
- For purchases not exceeding the Simplified Acquisition Threshold (SAT), grantees may use informal methods
- Micro purchases and small purchases will be considered informal.
- Sealed bids, proposals and non-competitive methods will be considered formal.
- Nonfederal entities will be permitted to request higher procurement thresholds from its cognizant agency for indirect cost.
- Domestic procurement preferences will be required



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## Revisions to the Uniform Guidance

### Merit Reviews and Notices

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- Requirement for agencies to strengthen their merit review process for all grants when the federal agency has the discretion to choose the recipient.
- Clarify the objective of selecting recipients most likely to be successful in delivering results based on programs objectives.
- Federal awarding agencies to expand its program planning and design
  - Establish program goals, objectives and indicators *before* drafting a Notice of Funding Opportunity
  - Program goals, objectives and indicators are required to align with the congressional intent of the program.
  - Agency goal and metrics for measuring performance must be published in the assistance listing.



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## Revisions to the Uniform Guidance

### Expanded Use of De Minimis Rate

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- Grant recipients can apply the de minimis rate, despite having previously received a negotiated rate.
- Objective of reducing the administrative burden for both granting agencies and recipients.
- Revisions to clarify that when a grantee is using the de minimis rate, documentation is not required for proof of covered costs.



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## Polling Question #2

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## Revisions to the Uniform Guidance

### Sub-recipient Monitoring

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- Clarification that a pass-through entity is only responsible for resolving audit findings specifically related to its sub awards, and not for other findings of its subrecipients
- If audit issues arise, the pass-through entity is able to focus solely on its own relevant award requirements
- The subrecipient's auditors and cognizant oversight can be relied on to address those issues that are applicable to the sub recipient.

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## Revisions to the Uniform Guidance

### Other Changes

- Alignment with the National Defense Authorization Act (NDAA) including:
  - Requirement for grant applicants to provide information in the System for Award Management (SAM) on their immediate owner and subsidiaries
  - Restriction on recipients from using government funds to enter in contracts with entities that use covered telecommunications equipment or services produced by companies like Huawei Technologies or ZTE
- Alignment with GAAP, including GASB statement 68 and 45 related to pension costs and depreciation to help clarify which costs are allowable.
- Revisions to terms and definitions, including changing "Catalog of Federal Domestic Assistance (CFDA)" to "Assistance Listing"



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## The GREAT Act

### Congressional Action

- In December of 2019 Congress passes the *Grant Reporting Efficiency Agreements Transparency Act*.
- Primary requirements of the law:
  - OMB to designate a single data standard-setting agency to work with it, and in consultation with other stakeholders, to develop a set of data set standards by December 30, 2021.
  - OMB to develop a set of unique identifiers for federal awards and grant recipients that are consistently applied across the government.
  - The data standards are to require that information collected by the federal government from should be
    - fully searchable and machine-readable, and
    - incorporate any standards already created under the Digital Accountability and Transparency Act



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## The GREAT Act

### Why is it needed?

- In 2019 thirty-five federal agencies awarded nearly \$750 billion in grants to over 40,000 recipients via 1,800 different programs
- Reporting occurs within an antiquated, document-based process in which recipients are required to fill out an excessive number of forms under multiple agency reporting systems.
- HHS 2017 Study - More than 440 different grant reporting forms containing duplicative data collection requirements and using different titled data elements
- 2017 OMB report to Congress found that:
  - Thirty out of 115 standard grant reporting forms included 371 instances of requests for duplicative data elements.
  - Out of nearly 12,000 financial assistance data elements, only 112 had standard definitions.



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## The GREAT Act

### OMB Conclusion and Recommendations

- OMB determined that grant reporting should be simplified with improved accuracy and timeliness
- Recommendations:
  - Require that reported data elements be defined and standardized in a central, open repository.
  - Require reported data to be collected and maintained in a central location.
  - Encourage use of IT that can auto-populate data from existing federal sources across government programs.
  - Have resources available to explain requirements and business processes.



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## The GREAT Act

### Deadlines

- *December 30, 2022* - OMB and HHS are to issue guidance to agencies on applying the standards.
- *December 30, 2023* - Agency directors to ensure their award recipients use the data standards for all information collected by their agency.
- *December 30, 2024* - OMB to enable the collection, public display, and maintenance of Federal award information as a Governmentwide data set on a single public portal.



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## The GREAT Act

### Benefits of the Act

- Reduce recipient compliance costs for reporting by leveraging technology and automation.
- Recipients can devote more time to their mission rather than continuing “convoluted, costly compliance exercises.”
- Improved oversight and greater transparency about how funds are being used
- Better comparability of performance among grantees by making data interoperable.
- Agencies will be able to “better manage the data that recipients already provide to the Federal Government.”
- Ease of use of commercial accounting and project management software to simplify reporting obligations, since customization would no longer occur from program to program.
- Increased transparency and availability of detailed grant data will allow for greater analysis for independent assessments of accountability and program performance.
- Stronger oversight and management of grants and cooperative agreements by agencies by consolidating the collection and display and access of these data.



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## The CARES Act

### Overview

- In March of 2020 Congress passes the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* which provides for a \$2 trillion stimulus to counter the effects of covid-19, including the following funding:
  - \$367 billion loan and grant program for small businesses and a
  - Expansion of unemployment benefits by \$600 per week for a period of four months
  - Direct payments of \$1,200 per adult and \$500 per child for households making up to \$75,000
  - Over \$130 billion to hospitals, health care systems, and providers
  - Cash grants of \$32 billion for airlines, air cargo carriers, and for airline contractors for payroll support
  - Ban on stock buybacks for large companies receiving government loans \$150 billion to state and local governments
  - 150 billion to state and local governments



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## The CARES Act

### Relief Fund for State and Local Governments

- Treasury will make payments to States and eligible units of local government; the District of Columbia and U.S. and Tribal governments
- The Act requires that the payments from the Fund only be used to cover expenses that—
  - are necessary due to the public health emergency with respect to COVID-19;
  - were not accounted for in the budget most recently approved as of March 27, 2020
  - were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.
- Payments to eligible units of local government are based on population.
- The Act directs Treasury to use the most U.S. Census Bureau data for determining population
- Eligible units include entities below the state level with populations that exceed 500,000.
- Eligible units must submit required certification to Treasury by 12:00 pm EDT on May 29, 2020



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## Polling Question #3

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## The CARES Act

### Municipal Liquidity Fund (MLF)

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- In April 2020 the Federal Reserve established the MLF as a short term liquidity facility to support lending to states and to cities (> 1 mil residents), and to counties (> 2 mil residents)
- A Federal Reserve Bank will commit to lend to a special purpose vehicle (a "SPV") on a recourse basis.
- The Reserve Bank will be secured by all the assets of the SPV
- The SPV will have the ability to purchase up to \$500 billion in notes directly from issuers.
- Eligible notes include TANs, TRANs, BANs, and other similar short-term notes with maturities limited to 24 months
- The SPV may purchase notes in one or more issuances of up to an aggregate amount of 20% of the issuer's general revenue and utility revenue for fiscal year 2017.
- Proceeds may be used by to help manage the cash flow impact of income tax deferrals; reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19
- Proceeds may also be used for debt service requirements of the relevant State, City, or County, and
- Pricing is be based on an issuer's rating at the time of purchase and an origination fee is required equal to 10 basis points of the principal amount notes

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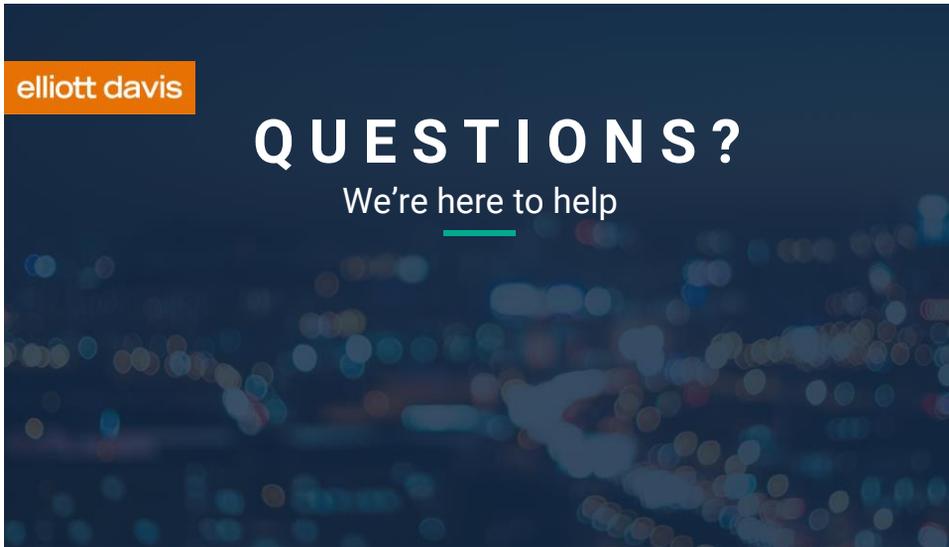
## The CARES Act

### Single Audit Implications

- On March 9 OMB issued a memo to the federal agencies identifying certain agency actions to relieve short term administrative, financial management and audit requirements.
- On April 10, the GAQC issued a letter to the OMB highlight questions that have arisen, relating to the CARES Act funding including:
  - Are the PPP loans and other CARES Act funds subject to Single Audit?
  - Do the PPP loans and other CARES Act funds need to be reported on the SEFA?
  - What is the CFDA number associated with the funding?,
  - What are the compliance requirements?
  - Will the funding be included in the OMB Compliance Supplement?
  - Will there be new clusters?
- So far specific guidance has been mostly limited to the SBA stipulating that EIDL funds *are* subject to single audit requirements while PPP funds *are not*.



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