

# Government Audit Update – Client Perspective

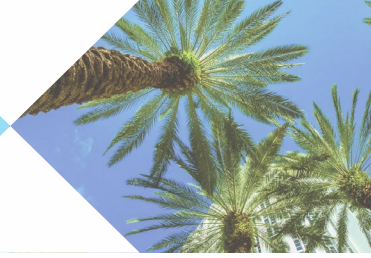
Presented by:  
William Blend, CPA, CFE



# Agenda

- Current Environment
- AICPA Standards
- Yellow Book
- Common Financial Audit Findings
- Single Audit
- Uniform Guidance (UG) and Internal Controls
- Single Audit Documentation
- Common Single Audit Findings
- ARPA

# Current Environment



- COVID-19 and ARP Funding Issues Lingering
- Economic environment changes (e.g., rising interest rates)
- Personnel resources (or lack of)
- Accounting estimates (e.g., pension and OPEB assumptions)
- New GASB Standards
- AICPA auditing standards
- Yellow Book and Independence



# AICPA Standards



FLORIDA ROOTS. GLOBAL REACH.

# AICPA Impact on Government Audits

- AICPA Ethics – Recent Interpretations

## Loans, Acquisitions, and Other Transactions

- ET 0.400.06, 1.210.010, 1.224.010, 1.260.010, 1260.020, 1.270.010
- Effective 12/31/22
- [Official release](#)
- [JofA article](#)

## Assisting Attest Clients With Implementing Accounting Standards

- ET 1.295.113
- Effective 12/31/22
- [Official release](#)
- [JofA article](#)

## Unpaid Fees

- ET 1.230.010
- Effective 12/31/22
- [Official release](#)
- [JofA article](#)

## Responding to Noncompliance with Laws and Regulations (NOCLAR)

- ET 1.180.010, 2.180.010, 1.000.020, 2.000.020
- Effective June 30, 2023
- [Official release](#)
- [JofA article](#)

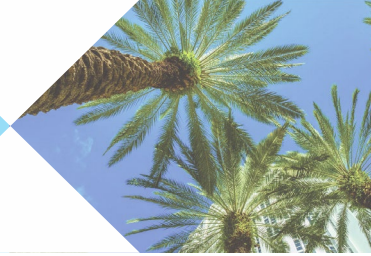
## Information System Services

- ET 1.295.145
- Effective January 1, 2023
- [Official release](#)
- [JofA article](#)

## Compliance Audits

- ET 0.400
- Effective June 15, 2023
- [Official release](#)
- [JofA article](#)

# AICPA Impact on Government Audits



- AICPA Ethics – NOCLAR
- Establishes a member's responsibilities when encountering noncompliance or suspected noncompliance with laws and regulations
- Guides the member in evaluating the implications of a matter and the possible courses of action when responding to it
- Provides separate guidance for members in business; members providing financial statement audit or review services; and members providing services other than a financial statement audit or review service.
- Access interactive NOCLAR tool issued by AICPA Ethics team
- Effective June 30, 2023, with early implementation allowed.

# AICPA Impact on Government Audits

- AICPA Ethics – Compliance Audits
- New definitions: 1) Compliance audit; and 2) Compliance audit client
- Revision to financial statement attest client –**removes** the requirements to:
  1. Apply the “Independence Rule” ([ET sec. 1.200.001](#)) with respect to any entity that meets both of the following
    - a) Not subject to compliance audit procedures and
    - b) Includes amounts in the schedule or statement that are trivial and clearly inconsequential; and
  2. Apply the Affiliates rule ([ET sec 1.224](#)) with respect to a compliance audit client
- Effective for compliance audits commencing on or after June 15, 2023, with early implementation allowed.

# AICPA Impact on Government Audits



- AICPA Ethics – Other Resources

## Requirements

- Access the AICPA [Professional Code of Conduct](#)

## FAQs

- Ethics Questions and Answers
  - Relocated to an [Online Ethics Library](#)
  - Answers to common member inquiries provided by AICPA Ethics team
- New Q&As on
  - [Noncompliance with Laws and Regulations](#) (December 2022)
  - [Compliance Audits](#) (December 2022)
  - [Assisting Attest Clients](#) (December 2022)

## Other resources

- “Ethically Speaking” Podcasts - Check out recent podcasts on auditing government entities; independence and nonattest services; and more - [Access podcasts](#)
- Practice Aid – [Independence Considerations for Information Services Practice Aid](#)
- Tool – [Independence rules comparison: AICPA and Government Auditing Standards](#)
- Interactive Decision Tree – [Responding to Noncompliance with Laws and Regulations](#)



# AICPA Impact on Government Audits



- AICPA ASB – Recent Auditing Standards

SAS No.	Topic	AU- C Section Affected	Effective Date
<a href="#"><u>142</u></a>	Audit Evidence	500 and various other AU-Cs	Audits of periods ending on or after 12/15/2022
<a href="#"><u>143</u></a>	Auditing Accounting Estimates and Related Disclosures	540 and various other AU-Cs	Audits of periods ending on or after 12/15/2023
<a href="#"><u>144</u></a>	Use of Specialists and Use of Pricing Information	501, 540, and 620	Audits of periods ending on or after 12/15/2023
<a href="#"><u>145</u></a>	Risk Assessment	315 and various other AU-Cs	Audits of periods ending on or after 12/15/2023

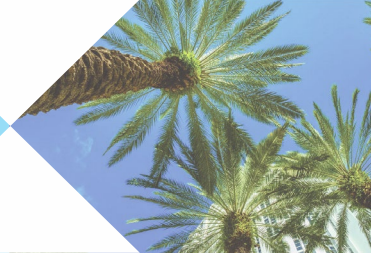
# AICPA Impact on Government Audits



- AICPA ASB – Recent Auditing Standards

SAS No.	Topic	AU- C Section Affected	Effective Date
<a href="#"><u>146</u></a>	Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards	220 and various other AU-Cs	Audits of periods beginning on or after 6/30/2025
<a href="#"><u>147</u></a>	Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations	210	Audits of periods beginning on or after 6/30/2023
<a href="#"><u>148</u></a>	Amendments to AU-C Section 935	935	Various (to align with effective dates of SAS 142 and 145)
<a href="#"><u>149</u></a>	Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Audits)	600 and various other AU-Cs	Audits of periods ending on or after 12/15/2026

# AICPA Impact on Government Audits



## *SAS No. 147 – Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*

- Addresses predecessor/successor communication around NOCLAR (issued in conjunction with changes to Ethics Code)
- No revision to the existing audit requirement that the auditor request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement.
- Once management authorizes the predecessor to respond, prospective auditor required to inquire of the predecessor regarding fraud and NOCLAR

# AICPA Impact on Government Audits



## SAS No. 148 – *Amendments to AU-C Section 935*

- Amends AU-C section 935, *Compliance Audits*, to update the appendix “AU-C Sections That Are Not Applicable to Compliance Audits”
- Also conforms AU-C section 935 to reflect the issuance of the following SASs:
  - SAS No. 142, *Audit Evidence* (AU-C section 500)
  - SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C section 315)



YELLOW BOOK



FLORIDA ROOTS. GLOBAL REACH.

# Yellow Book Update

- General Reminders



Understand when engagements are subject to Yellow Book (e.g., *single audit*, *certain for-profit audits*, *CSLFRF compliance examination*)



Ensure the engagement team has the right experience, training, and resources



Ensure that engagement teams meet the *Government Auditing Standards* continuing professional education requirements



Follow Yellow Book independence rules for nonaudit services



Have a peer review and make the peer review report public

# Yellow Book Update



## Exposure Draft Issued

- Issued 1/30/23; comments due 4/28/23
- Harmonizes with the Intentional Auditing and Assurance Standards Board (IAASB) and ASB standards
- Also addresses the potential impact on governmental audit organizations and GAGAS engagements, including performance audits
- Proposed effective date requires quality management systems to be designed and implemented within 2 years from issuance of final revision.
- The evaluation of the system of quality management is required within 1 additional year. Early adoption of the proposed revision is permitted.

# Yellow Book Update



## Exposure Draft Issued

- Quality Management -Audit organizations that are subject to AICPA and IAASB quality management standards can comply with those requirements and specific additional Yellow Book requirements
  - Avoids the potential burden of audit organizations designing and maintaining separate systems of quality management.
- Key Audit Matters –Similar to AICPA standards, adds application guidance stating that communicating key audit matters is permitted in GAGAS financial audits if the auditors are engaged to do so or required to do so by law or regulation



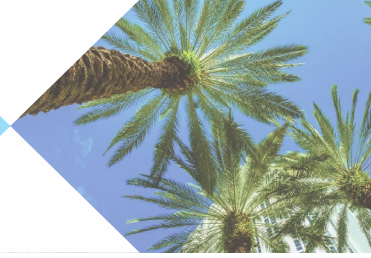


# Common Financial Audit Findings

**MSL**

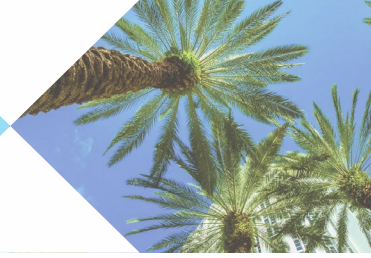
FLORIDA ROOTS. GLOBAL REACH.

# Common Findings



- General Accounting Records
  - Inadequate accounting records
  - Failures in timely reconciliations, improper recording of transactions and lack of subsidiary records
  - May result in unreliable financial position and results of operations

# Common Findings *(Cont.)*



- Segregation of Duties
  - Lack of segregation of duties
  - Increases possibility that errors of fraud may occur
  - In many instances, the entity contended that it was not economically feasible

# Common Findings *(Cont.)*

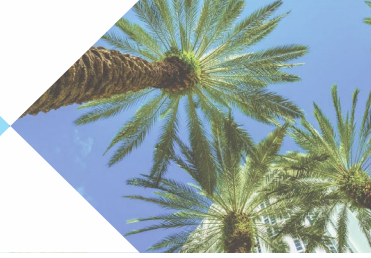
- Financial Reporting
  - Issues with the reporting of financial data
  - Sources of financial data include improperly recorded transactions that may result in incorrect balances
  - May affect ability to demonstrate compliance with legal, contractual, and financial reporting requirements

# Common Findings *(Cont.)*



- Cash
  - Inadequate controls or noncompliance with legal requirements pertaining to cash
  - Bank reconciliations not reviewed or timely
  - Stale checks
  - Inaccurate recording of cash
  - Noncompliance with legal requirements

# Common Findings *(Cont.)*



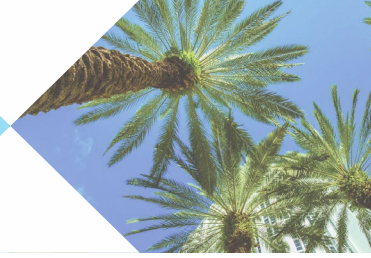
- Capital Assets
  - Lack of asset records
  - Failure to reconcile subsidiary ledger
  - Failures over inventory counts and processes
  - Asset management
  - Noncompliance with legal requirements with acquisitions or disposals
  - Improper use of assets

# Common Findings *(Cont.)*



- Debt Administration
  - Failures in making debt payments when due
  - Noncompliance with debt reserves and ratios
  - Noncompliance with debt covenants
  - May result in deteriorating financial conditions

# Common Findings *(Cont.)*



- Revenues and Collections
  - Improper recording of revenue or accounts receivable
  - Improper documentation for receipts
  - Untimely deposits
  - Insufficient safeguarding of assets



# Common Findings *(Cont.)*



- Expenditures and Disbursements
  - Expenditures or expenses were not properly documented, approved, or recorded
  - Not made in accordance with laws, rules, ordinances or other guidelines

# Common Findings *(Cont.)*



- Payroll
  - Improper authorization and payment of salaries and benefits
  - Improper recording of payroll transactions
  - Failure to remit payroll taxes



# Single Audit



FLORIDA ROOTS. GLOBAL REACH.

# Federal and State



- Federal (Programs)
  - Uniform Guidance
  - Schedule of Expenditures of Federal Awards (SEFA)
- State (Projects)
  - Florida Single Audit Act
  - Schedule of Expenditures of State Financial Assistance (SEFSA)

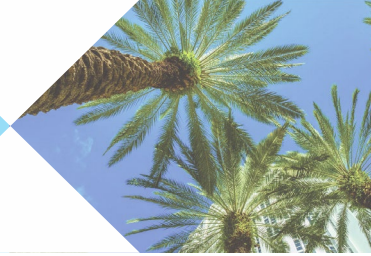
# Schedule of Expenditures of Federal Awards



Schedule of Expenditures of Federal Awards and State Financial Assistance  
Year Ended September 30, 2023

Federal Grantor/Pass-Through Grantor Program Title	Assisting Listing Number	Grant Number / Pass Through Grantor's Number	Reimbursable Expenditures
U.S. Department of Housing and Urban Development			
COVID19 - Cares Act Provider Relief Fund	14.218	B-20-MW-12-0062	157,870.84
Neighborhood Stabilization Program	14.218	B-11-MN-12-0035	3,258.02
Community Development Block Grant	14.218	B-20-MC-12-0045	658,918.99
Total Department of Housing and Urban Development			820,047.85
Office of National Drug Control Policy			
Passed through Seminole County Sheriff's Office			
High Intensity Drug Trafficking Areas Program	95.001	G21CF010A	14,963.35
Total Office of National Drug Control Policy			14,963.35
Passed through Florida Department of Emergency Management			
Hurricane Matthew Declaration	97.036	FEMA-4283-DR-FL17-PA-U5-06-77-02-14 0	54,027.79
Passed through Florida Department of Emergency Management			
COVID19			37,088.87
Total Department of Homeland Security			91,116.66
U.S. Department of Treasury			
Passed Through the State of Florida Division of Emergency Management			
COVID19 - Coronavirus Local Fiscal Recovery Fund	21.027	1505-0341	957,843.20
			957,843.20
		Total Expenditure of Federal Awards	\$ 1,883,971.06

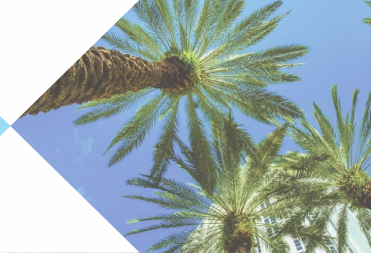
# Schedule of Expenditures of State Financial Assistance



Schedule of Expenditures of Federal Awards and State Financial Assistance (continued)  
Year Ended September 30, 2023

State Grantor/Pass-Through Grantor Program Title	CSFA Number	Grant Number / Pass Through Grantor's Number	Reimbursable Expenditures
Florida Department of Environmental Protection			
Statewide Surface Water Restoration and Wastewater Projects	37.039	LP6001A	1,374,808
State Revolving Fund Loan	37.077	WW590170	42,833
Total Department of Environmental Protection			1,417,640
Florida Department of Historical Resources			
Sanford Civic Center Conditions Assessment	45.031	93DFX	67,925
Total Department of Historical Resources			67,925
Florida Department of Economic Opportunity			
Growth Mangement Implementation Technical Assistance	40.024	P0598	42,871
Total Department of Economic Opportunity			42,871
		<b>Total Expenditures of State Financial Assistance</b>	<b>1,528,436</b>

# Types of Compliance Requirements



## Federal

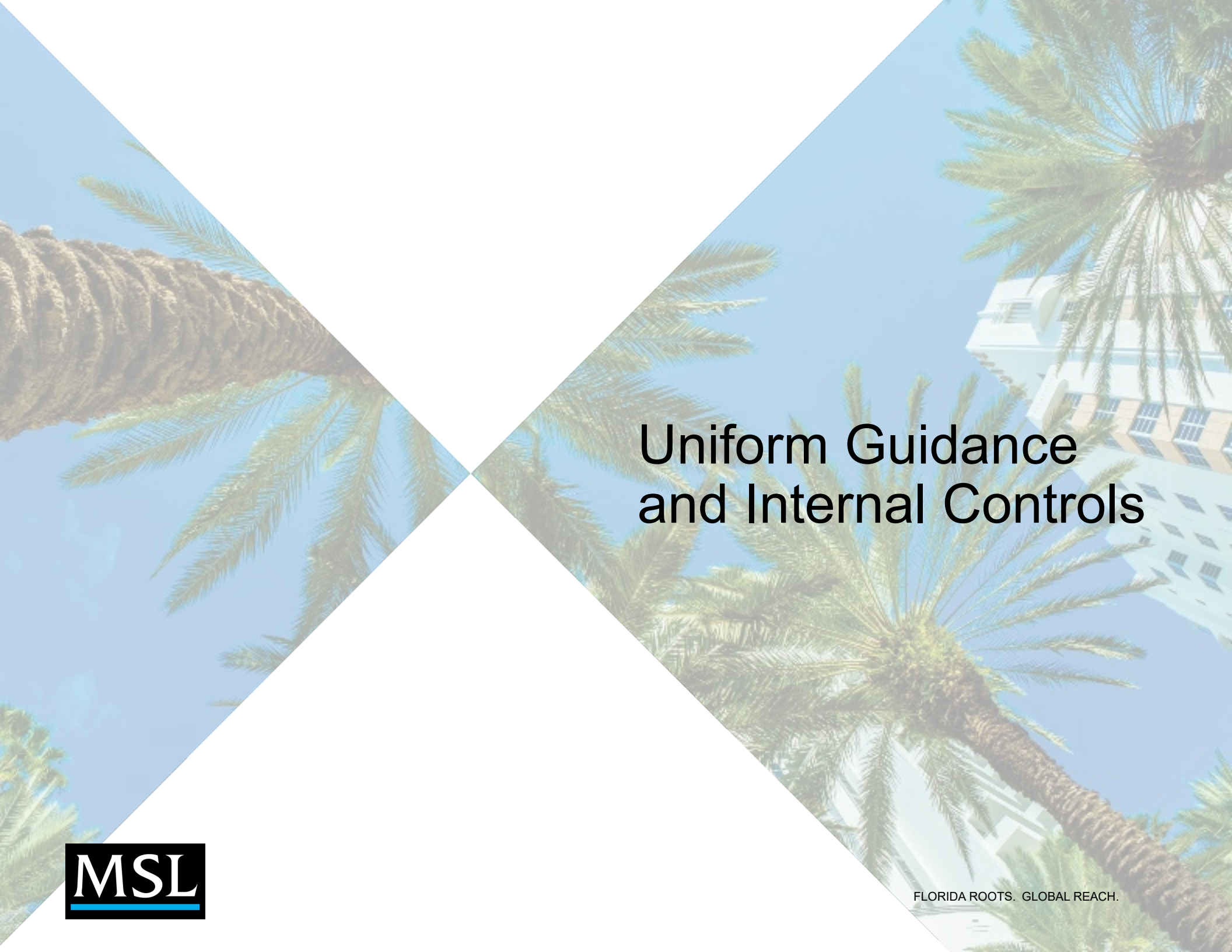
---

- A. Activities Allowed or Unallowed
- B. Allowable costs/cost principles
- C. Cash Management
- D. Reserved
- E. Eligibility
- F. Equipment/Real Property Management
- G. Matching, level of effort or earmarking
- H. Period of availability
- I. Procurement and suspension & debarment
- J. Program Income
- K. Reserved
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

## State

---

- A. Activities Allowed or Unallowed
- B. Allowable costs/cost principles
- C. Cash Management
- D. Eligibility
- E. Equipment/Real Property Management
- F. Matching
- G. Period of Availability
- H. Reporting
- I. Subrecipient monitoring
- J. Special tests and provisions



# Uniform Guidance and Internal Controls

**MSL**

FLORIDA ROOTS. GLOBAL REACH.





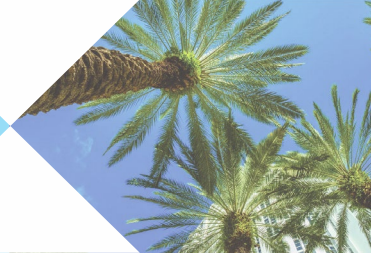
- UG 200.303 – IC should comply with guidance from Green Book / COSO
- IC applies to each compliance requirement (for audit purposes those that are direct and material)
- Responsibility of management/client
- Audit includes an evaluation/testing of IC
- Report on IC over compliance is required reporting



## Example Compliance Supplement – Rental Assistance Program

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	Y	N	N	Y	N	N	Y	N	Y

# UG IC (cont.)



Component (5)	Green Book / COSO Principles (17)
<b>Control Environment</b>	<ol style="list-style-type: none"><li>1. Demonstrate a commitment to integrity and ethical values.</li><li>2. Oversight body should oversee the entity's IC system.</li><li>3. Establish an organizational structure, to achieve the entity's objectives.</li><li>4. Recruit, develop, and retain competent individuals.</li><li>5. Evaluate performance and hold individuals accountable for their IC responsibilities.</li></ol>
<b>Risk Assessment</b>	<ol style="list-style-type: none"><li>6. Define objectives clearly to enable the identification of risks and define risk tolerances.</li><li>7. Identify, analyze, and respond to risks related to achieving the defined objectives.</li><li>8. Consider the potential for fraud when identifying, analyzing, and responding to risks.</li><li>9. Identify, analyze, and respond to significant changes that could impact the IC system.</li></ol>



## Component (5) Green Book / COSO Principles (17)

### **Control Activities**

10. Design control activities to achieve objectives and respond to risks.
11. Design information systems and related control activities to achieve objectives and respond to risks.
12. Implement control activities through policies.

### **Information and Communication**

13. Use quality information to achieve objectives.
14. Internally communicate quality information to achieve objectives.
15. Externally communicate quality information to achieve objectives

### **Monitoring**

16. Establish and operate monitoring activities to monitor the IC system and evaluate the results.
17. Remediate identified IC deficiencies on a timely basis.

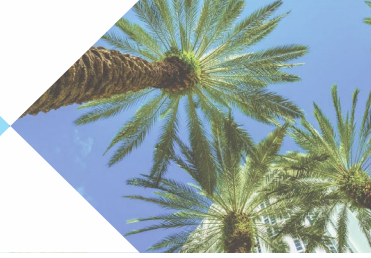


# Single Audit Documentation

**MSL**

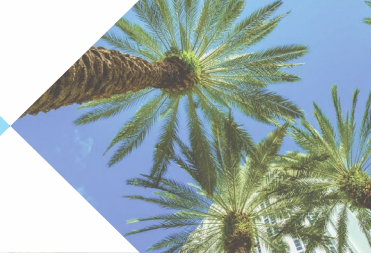
FLORIDA ROOTS. GLOBAL REACH.

# Audit Documentation



- SEFA
  - Expenditures reported should be properly supported (i.e., G/L details)
  - Amounts paid to subrecipients should be properly supported
- SEFA should be reviewed by appropriate Grant Manager or Department Head prior to submission to auditor
  - Incorrectly reported expenditures could affect major program determination and potentially result in a finding

# Audit Documentation *(Cont.)*



- Each major program - initial documentation requests
  - Grant agreements and related amendments
  - Grant questionnaire - auditee should identify applicable grant requirements and responsible personnel
  - Internal control questionnaire - key controls for each compliance requirement should be documented
  - Populations for sample selection (i.e., G/L details)

# Audit Documentation *(Cont.)*



- Each major program – internal control narrative should include at a minimum:
  - Key personnel and/or position
  - Major transaction class related to program
  - Policies and procedures including responsibilities from application to final reporting
  - Identification of program inherent and control risks
  - Significant program IT systems
  - Process narrative for transaction and program activities

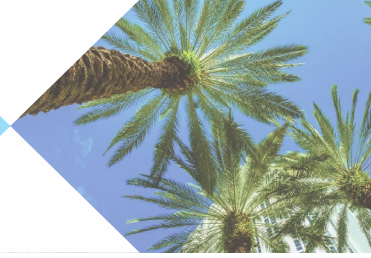


# Common Findings Single Audit

**MSL**

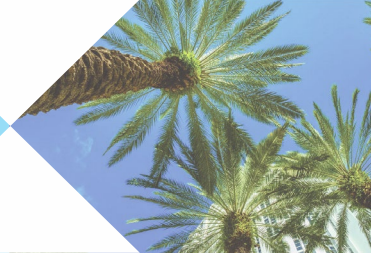
FLORIDA ROOTS. GLOBAL REACH.

# Common Single Audit Issues Noted



- SEFA Preparation
  - Improper reporting (multiple revisions)
  - Improper identification of subrecipient payments
- Disconnect between program personnel and finance
- Lack of documented IC over compliance
- Lack of timely inspection of work performed
- Procurement – policies not consistently followed across the entity
- Lack of wage rate determination – certified payrolls obtained from contractors, as well as subcontractors (Davis Bacon)

# Common Single Audit Issues Noted



- Including match as part of amount reported on SEFA
- No identification of Sub-recipient amounts
- Confusion on Sub-recipient, beneficiary and vendor
- Sub-recipient monitoring program/risk assessment
- Lack of reconciliation between GL and SEFA data
- Inability to provide proper grant expenditure populations
- Lack of understanding of cash management requirements

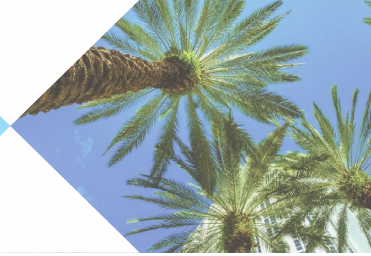


# American Rescue Plan Act (ARPA) Update

**MSL**

FLORIDA ROOTS. GLOBAL REACH.

# ARPA Update - CSLFRF (Cont.)



- CSLFRF compliance requirements

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	N	Y	Y	N	Y	Y	N

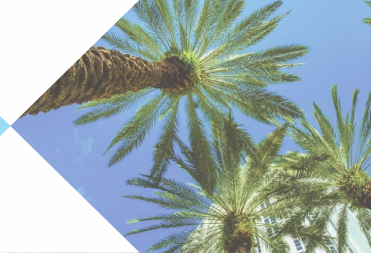
# ARPA Update - CSLFRF (Cont.)



## Allowable activities & costs

- **Support public health expenditures**, by funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff;
- **Address negative economic impacts caused by the public health emergency**, including economic harms to workers, households, small businesses, impacted industries, and the public sector;
- **Replace lost public sector revenue** to provide government services; recipients may use this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic.
- **Provide premium pay for essential workers**, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and
- **Invest in water, sewer, and broadband infrastructure**, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet.

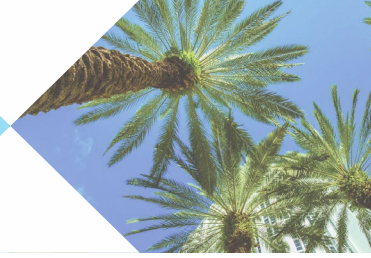
# ARPA Update - CSLFRF *(Cont.)*



## Allowable activities & costs

- Lost revenue
  - Recipients can elect a one-time “standard allowance” of \$10 million (not to exceed the recipient’s award amount) to spend on the “provision of government services” during the period of performance.
  - Alternatively, recipients can calculate lost revenue based on the formula provided in the Final Rule to determine the limit for the amount of CSLFRF funds that can be used for the “provision of government services.”
  - Recipients should provide auditors with evidence that they meet the requirements to elect the standard allowance or provide auditors with evidence supporting their revenue loss calculation.
  - The dollar amount of the revenue loss determines the limit for the amount of CSLFRF funds that can be used to “provide government services” (see previous slide).
  - For SEFA reporting purposes, the aggregate expenditures for all four eligible use categories are reported on the SEFA and not the result of the revenue loss calculation or standard allowance.

# ARPA Update - CSLFRF *(Cont.)*



## H. Period of performance

- The period of performance for the award under CSLFRF begins on the date the awards are issued (i.e., the date funds are disbursed to recipients) and ends on December 31, 2026.
- Recipients may only use funds to cover costs incurred during the period beginning on March 3, 2021 and ending on December 31, 2024.
- Recipients must liquidate all obligations incurred by December 31, 2024 under the award no later than December 31, 2026, which is the end of the period of performance.
- Auditors should test that recipients only used award funds to cover costs incurred from the period beginning on March 3, 2021 and ending on December 31, 2024.
- Auditors should also test that recipients did not incur and apply to their award any new costs during the period beginning December 31, 2024 and ending on December 31, 2026.



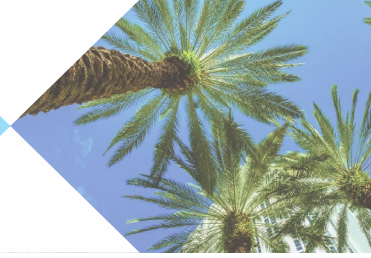
# ARPA Update - CSLFRF *(Cont.)*



## Procurement and suspension and debarment

- Recipients may use award funds to enter into contracts to procure goods and services necessary to implement one or more of the eligible purposes
- Recipients are expected to have procurement policies and procedures in place that comply with the procurement standards outlined in the Uniform Guidance.
- Prior to entering into subawards and contracts with award funds, recipients must verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded.

# ARPA Update - CSLFRF *(Cont.)*



## Reporting

- 3 types of reporting requirements for CSLFRF
  - Interim Report
    - Provide initial overview of status and uses (one time report)
  - Project and Expenditure Report
    - Report on financial data, projects funded, and contracts and subawards over \$50,000
    - Due on a regular recurring basis after the interim report
  - Recovery Plan Performance Report
    - Provide information on the projects that large recipients are undertaking and how they plan to ensure program outcomes
    - Posted on the website of the recipient as well as provided to Treasury

# ARPA Update - CSLFRF *(Cont.)*



## Subrecipient monitoring

- Applies when recipients of CSLFRF provide award funds to an entity to carry out a program on behalf of the CSLFRF recipient
  - A pass-through entity must identify the award and applicable requirements, evaluate risk, monitor, and ensure accountability of subrecipients
- Subrecipient monitoring is not required for entities deemed to be beneficiaries
  - When recipients of CSLFRF provide award funds to entities to respond to the negative economic impacts of COVID-19 as end users, and not for the purpose of carrying out program requirements

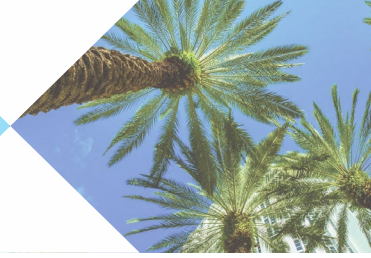
# ARPA Update - CSLFRF *(Cont.)*



## SEFA considerations

- COVID-19 designation on the face of the SEFA
- Sub-recipient versus beneficiary considerations
  - Amounts received as a beneficiary are not reported on the SEFA
- Revenue loss is not reported on the SEFA

# ARPA Update - CSLFRF *(Cont.)*



- Local Government Considerations
  - How to use the funds
  - Who will be responsible for various programs
  - What are my required reporting requirements
  - Governance impact
  - How will this impact Single Audit
  - Review terms and conditions
  - Establish policies to avoid double dipping
  - Document all calculations and key decisions

# Questions or Comments

