

Single Audit Update

May 16, 2023

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

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Agenda

UG COVID Deficiencies

Alternative Engagements

Single Audit Update



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UG COVID Deficiencies



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Federal Agency Observations



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Sampling



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Sampling

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

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Sampling Cont'd

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

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Sampling Cont'd

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

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Compliance Testing



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Compliance Testing

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

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Reporting



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Reporting

- Reporting in management letter only and not in SFQC

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Alternative Engagements



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Provider Relief Funds



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What are Provider Relief Funds?

- Funds provided to healthcare providers
- To support healthcare related expenses and lost revenue attributable to COVID-19 pandemic
- Administered by the Health Resources and Services Administration (HRSA), an agency of the U.S. Department of Health and Human Services (HHS)
- Funds have been allocated to eligible providers through General and Targeted Distributions in phases
- Providers were required to accept certain program Terms and Conditions or return the funds

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Types of Healthcare Providers



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DHHS Awards

- Unless specifically excluded, all HHS awards are subject to the HHS for-profit audit requirements
- For example:
 - 93.498, Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
 - 93.461, HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund
 - 93.697, COVID-19 Testing and Mitigation for Rural Health Clinics

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Audit Requirement

Original information

45 CFR 75.216 & 75.501:
Commercial organizations
that **receive** HHS awards
of \$750,000 or more

Clarified

HRSA FAQs clarify that for-profit entities that **expend** \$750,000 or more in annual awards are subject to the HHS for-profit audit requirements

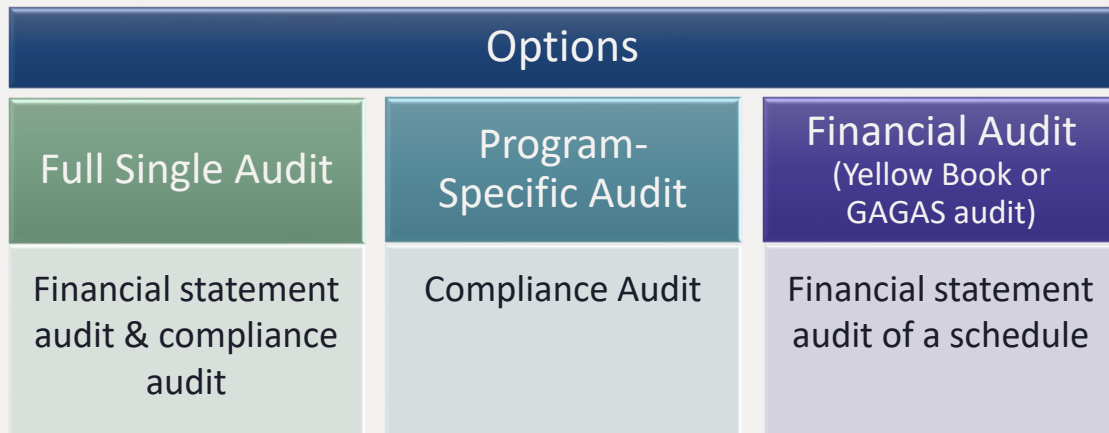
- For this purpose, amounts “**expended**” include both expenditures and lost revenues

Reporting Periods

Period	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Deadline to Use Funds	Reporting Time Period	SEFA Reporting (FYE)
Period 1	4/10/20 to 6/30/20	6/30/21	7/1/21 to 9/30/21	6/30/21 to 6/29/22
Period 2	7/1/20 to 12/31/20	12/31/21	1/1/22 to 3/31/22	12/31/21 to 6/29/22
Period 3	1/1/21 to 6/30/21	6/30/22	7/1/22 to 9/30/22	6/30/22 to 6/29/23
Period 4	7/1/21 to 12/31/21	12/31/22	1/1/23 to 3/31/23	12/31/22 to 6/29/23
Period 5	1/1/22 to 6/30/22	6/30/23	7/1/23 to 9/30/23	2023 CS

Source: https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

Audit Requirement Cont'd



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Is One Better?

- No – Each entity should decide which option is best for their circumstances

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CSLFRF



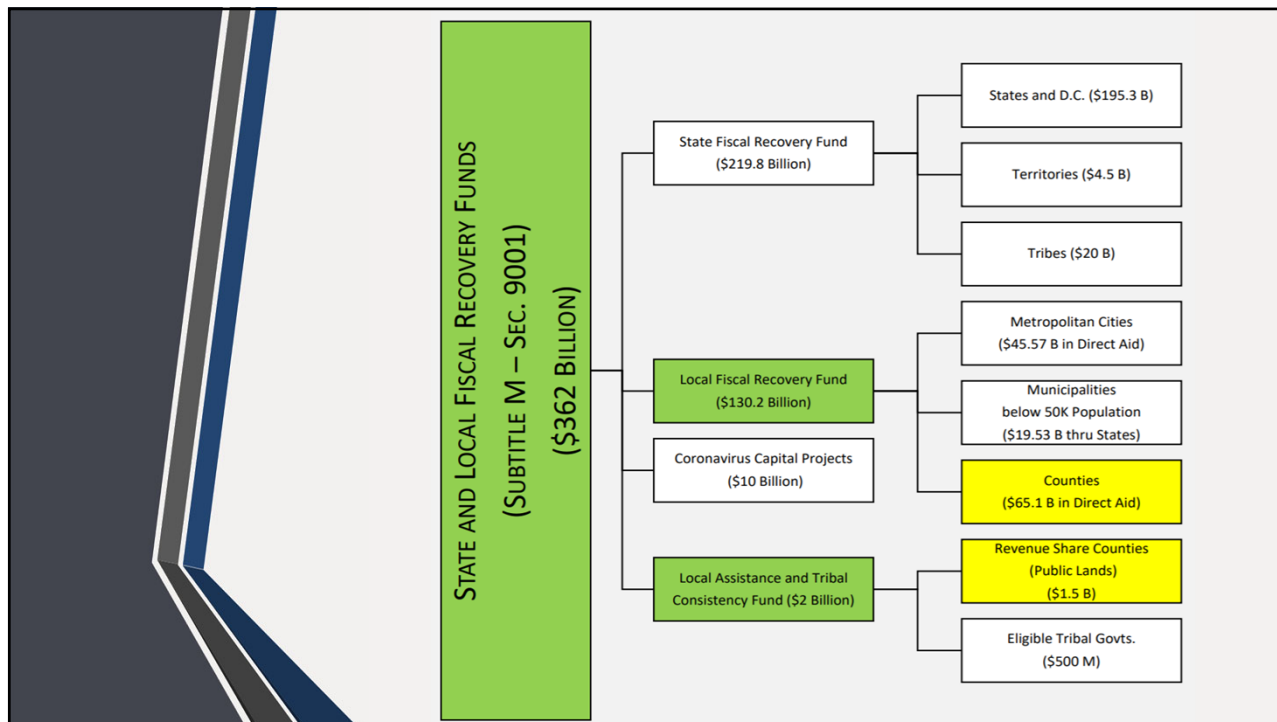
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Governments

- Coronavirus State and Local Fiscal Recovery Fund
 - \$362 billion in federal fiscal recovery aid for state and local governments
 - \$65.1 billion is provided in direct aid to counties
 - \$1.5 billion for public land counties

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Purpose

- Respond to the public health emergency, COVID-19 or its negative economic impacts, including providing assistance to households, small businesses, nonprofits, and impacted industries, such as tourism, travel, and hospitality;
- Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers that have eligible workers who are performing essential work, or by providing grants to eligible entities who perform essential work;
- Provide government services, to the extent COVID-19 caused a reduction in revenues collected in the most recent full fiscal year of the state, territory, tribal government, metropolitan city, county, or non-entitlement units of local government;
- Make necessary investments in water, sewer, or broadband infrastructure

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Changes in Final Rule

Replacing Lost Public Sector Revenue

Public Health & Economic Impacts

Premium Pay

Water, Sewer, & Broadband

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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

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Alternative Compliance Examination



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Eligibility

- CSLFRF recipients that expend \$750,000 or more during the recipient's fiscal year in federal awards and which meet both criteria listed below have the option to follow the alternative CSLFRF compliance examination engagement:
 - The recipient's total CSLFRF award received directly from Treasury or received (through states) as a non-entitlement unit of local government is at or below \$10 million; and
 - Other federal award funds the recipient expended (not including their CSLFRF award funds) are less than \$750,000 during the recipient's fiscal year

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Outcome

- Can engage a practitioner to perform a compliance examination engagement in accordance with the GAGAS and SSAEs (AT-C 315, Compliance Attestation)
 - Results in an opinion on compliance

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Impact

- A financial statement audit is not required
- A formal SEFA is not required as the practitioner opines directly on compliance for a single program
- The requirements for internal control in 2 CFR 200.514(c) are not relevant to the engagement
 - Still required to obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements
- One report required
 - The reporting allows for reporting findings that are noted in a similar manner to how they are reported for audits under 2 CFR Part 200, Subpart F

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Compliance Requirements - Reduced

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	N	N	N	N	N	N

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SVOG



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SVOG Background

- Types of entities that may have this funding:
 - Live venue operators or promoters
 - Theatrical producers
 - Live performing arts organization operators
 - Museum operators
 - Motion picture theater operators (incl. owners)
 - Talent representatives

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Approved Uses

- Funds are to be used to reimburse or pay for ordinary and necessary business expenses to reopen or keep open the business
- Costs that have NOT been reimbursed by other funding sources
- Payroll costs, including
 - Salary, wages, or compensation
 - Payroll taxes
 - Fringe benefits
- Payments on covered rent obligation
- Covered utility payment

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Approved Uses Cont'd

- Principal or interest payments any covered mortgage obligation (not including prepayment of principal)
- Principal or interest payments on any debt (not including prepayment of principal) incurred in the ordinary course of business that is a liability of the eligible person or entity incurred prior to February 15, 2020
- Covered worker protection expenditures
- Payments made to independent contractors (not to exceed a total of \$100,000 in annual compensation for any individual employee of an independent contractor)



Approved Uses Cont'd

- Other ordinary and necessary business expenses, including
 - Maintenance expenses
 - Travel and transportation costs
 - Equipment
 - Supplies
 - Administrative costs, including fees and licensing costs
 - State and local taxes and fees
 - Operating leases in effect as of February 15, 2020
 - Payments required for insurance on any insurance policy
 - Advertising, production transportation, and capital expenditures related to producing a theatrical or live performing arts production, concert, exhibition, or comedy show

Ineligible

- Purchase of real estate
- Principal or interest payments on loans originating after February 15, 2020
- Invest or relend funds
- Contributions or expenditures to/on behalf of any political party, committee, or candidate for elective office
- Prepayment of principal
- Items of prurient sexual nature

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SVOG Guidance for For-Profit Recipients

- Audit trigger for all for-profit options is \$750,000 or more in **revenue recognized** from SVOG awards during entity's fiscal year
- Allowed to use the accrual basis or cash basis of accounting to determine the SVOG audit threshold, based on the ordinary business practice of the entity

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SVOG For-Profit Recipients Audit Options

- Options for meeting the for-profit audit requirement:
 - Single or program-specific audit in accordance with UG
 - Audit of the entity's financial statements in accordance with GAAS
 - No SEFA is needed
 - Easiest option if audited financial statements are already prepared
 - GAGAS not required for this alternative
 - No opinion level assurance on compliance, however AU-C 250 still applies
 - Compliance examination engagement in accordance with AT-C 315 and GAGAS
 - Practitioner opines directly on compliance in an examination report and no SEFA is prepared
 - No financial statement audit is required
 - Requirements for internal control in UG section 200.514(c) are not required for this engagement
 - Involves testing of the compliance requirements, but they are more narrowly scoped than those in a full single audit

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Pre-Award

- Unusual nuances to the program include permitting pre-award costs to be claimed resulting in out-of-period amounts

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Reporting

- Compliance Examination
 - Practitioner's Examination Report
 - Schedule of Findings and Responses

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SVOG Engagement Risks

- Allowance of pre-award costs causing confusion
- Application of the audit threshold challenging due to pre-award costs and there could be errors made
- Determining eligible costs

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Risks

- For-profit engagement additional risks
 - Many small recipients that have never been audited before; may have only prepared a tax return
 - Some practitioners will not be familiar with the AICPA and GAGAS requirements for a compliance examination attestation engagement if that option is selected
 - Revenue-based threshold may cause confusion

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Single Audit Update



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Request for Information



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Request for Information

- OMB proposing revisions to Title 2 of the CFR
 - 2 CFR consists of 2 main chapters of OMB Guidance
 - Chapter 1 (Office of Management and Budget Governmentwide Guidance for Grants and Agreements)
 - Chapter 2 (Office of Management and Budget Guidance)
 - Part 200 is the Uniform Guidance

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Request for Information Cont'd

- Feedback should support the goals of the OMB's forthcoming revisions
- Comments on the economic effects are especially helpful (quantitative and qualitative)

Focus of Update

- Revise guidance to incorporate statutory requirements and administration priorities
- Revise guidance to reduce agency and recipient burden
- Clarify guidance by addressing sections that recipients or agencies have interpreted in different ways
- Clarify guidance by rewriting applicable sections in plain English, improving flow, and addressing inconsistent use of terms

Size of Update

- The revision will not represent a complete revision or restructuring of 2 CFR
- OMB will strive to maintain the same overall structure of 2 CFR, including section numbers

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Questions for Respondents

- What specific section(s) of 2 CFR would benefit from revision in order to support the goal of reducing administrative burden?
- What specific section(s) of 2 CFR have been interpreted differently by Federal agencies and recipients leading to inconsistent implementation of Federal financial assistance?
- What specific section(s) of 2 CFR would benefit from improved clarity or more precise language?
- What specific suggestions do you have for otherwise improving the language of 2 CFR (e.g., consistent use of terms, other suggested edits)?



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Comments Received

- 113 comments received from nonprofits, associations, States etc.
 - Lots of focus on definitions
 - Prior approval
 - Increase of thresholds
 - Universal Entity Identifiers
 - For profit entities

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End of Pandemic



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End of National Emergency

- On March 29, 2023, Congress voted to terminate the National Emergency concerning COVID-19 that President Trump had declared in 2020 pursuant to the National Emergencies Act
 - This termination is effective as of April 10, 2023

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Q&A

- How does the end of the COVID-19 National Emergency, declared by the President in 2020, have an impact on the SLFRF program?



<https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>

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Response

- Recipients generally will be able to continue to make investments using their SLFRF funds without changes, with the exception of projects in the premium pay eligible use category
 - May not use SLFRF funds to provide premium pay to essential workers for work conducted after the end of the National Emergency

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Two Dates

- The Biden-Harris Administration has stated that it intends to end the COVID-19 Public Health Emergency declared by the Secretary of the DHHS pursuant to the Public Health Service Act (42 U.S.C. 247d) on May 11, 2023
 - The end of this HHS COVID-19 Public Health Emergency declaration by the HHS Secretary will not have an impact on recipients' ability to spend funds under the SLFRF program

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Financial Data Transparency Act



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Background

Financial Data Transparency Act

- Passed into law on December 23, 2022

Background:

- GREAT Act of 2019
- The language was included in the Fiscal Year 2023 National Defense Authorization Act (NDAA) which passed into law in December 2022

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What Is It?

- Requires the major U.S. financial regulators to adopt and implement uniform and non-proprietary data standards to collect and disseminate information

The 7 Regulators

1. The Federal Reserve
2. The Securities and Exchange Commission (SEC)
3. The Federal Deposit Insurance Corporation (FDIC)
4. The Office of the Comptroller of the Currency (OCC)
5. The Consumer Financial Protection Bureau (CFPB)
6. The Federal Housing Finance Agency (FHFA)
7. The National Credit Union Administration (NCUA)

Why?

- Makes the information collected and made publicly available by regulatory agencies easier to access, analyze and compare by requiring data to be posted in a machine-readable format, similar to the requirements for the information posted to the EDGAR by publicly traded companies, mutual funds and other regulated entities

Governmental & Nonprofit Impacts

- Impacts issuers and obligors of municipal securities report required disclosure information on the EMMA

Next Steps

- Required to jointly issue proposed rules for public comment that establish new data reporting standards within 18 months of enactment
 - Need a taxonomy
 - GASB? FASB?

Does Not Change

- Only changes how information is submitted
- Does not contain any new disclosure requirements

Cost Considerations

- Increased costs of preparing, reviewing and validating that the information presented in the new form is an accurate representation of the underlying data
 - GFOA was not in favor
 - “Unfunded Mandate”

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Let's Keep in Touch

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What Questions Do You Have?



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