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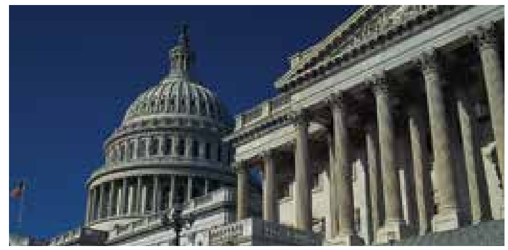

Single Audit Update on COVID-19 Guidance

The governmental landscape and single audit requirements continue to be shaped by the COVID-19 pandemic. The 2020 Compliance Supplement Addendum was released in December 2020, to address new COVID-19-related programs and modified compliance requirements that are relevant to COVID-19 for existing programs.

However, since the Addendum was issued, two significant pieces of legislation have been signed into law, providing additional COVID-19 federal funding through new and existing programs. Due to the rapidly changing environment, challenges and uncertainty continue to arise surrounding several key areas that will impact single audits for recipients of COVID-19-related federal funding.

American Rescue Plan Act

The American Rescue Plan Act (ARPA) was passed and signed into law in March 2021. Similar to the previous CARES Act legislation, ARPA provides a significant level of funding to governmental entities and includes a wide range of programs, including nutrition, schools, higher education, childcare, disaster recovery, COVID-19 testing and treatment, mental health, housing assistance, healthcare, and transportation.

ARPA provides significant funding for existing federal programs that may be subject to single audit requirements. The Act also creates new federal programs, most significantly, the Coronavirus State and Local Fiscal Recovery Fund, which provides over $350 million to states, tribal entities, U.S. territories, and local governments. At the time of this publication, it has not been determined whether that program will be subject to the single audit. Auditors should be alert for further communications from the OMB regarding this issue. Identifying new COVID-19 programs and determining whether they are subject to the single audit is critical in determining the amount of federal expenditures to properly assess the single audit threshold and to effectively determine major programs.

The AICPA's Government Audit Quality Center (GAQC) continues to maintain their nonauthoritative summary document that includes many COVID-19-related programs, with guidance as to which are subject to Uniform Guidance single audit

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requirements. The summary also includes links directly to the awarding agency websites and information to support the conclusion as to whether the award is subject to single audit for each program, as well as to other relevant information.

Practical Consideration:

The GAQC summary document, which will continue to be updated as additional information becomes available, can be found at **www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/gaqc-summary-of-applicability-for-new-coronavirus-related-fed-programs-20200616.pdf**. Auditors should refer to the date at the top of the summary to be sure it is the most recent version.

Single Audit Reporting Package Extension

On March 29, 2021, the OMB released Memorandum 21-20, *Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources*, which directs federal agencies to provide a blanket six-month extension for single audit reporting to the Federal Audit Clearinghouse. The extension applies to all recipients and subrecipients that have fiscal year ends through June 30, 2021, that have not yet submitted their single audits. No approval is needed to use the extension; however, the reason for the delayed submission should be documented. Unlike the previous single audit reporting package extensions in response to COVID-19, there is no specification from the OMB that the new six-month extension only apply to recipients of COVID-19-related funding; instead, it applies to all entities that meet the single audit requirements.

Practical Consideration:

Entities that take advantage of the six-month extension will still qualify as a low-risk auditee under the criteria of 2 CFR section 200.520(a).

HEERF II Guidance

The Higher Education Emergency Relief Fund (HEERF) grant program, which was established as part of the Education Stabilization Fund (ESF), by the CARES Act in March 2020, received a second round of funding as part of the Coronavirus Response and Relief Supplemental Appropriations Act, 2021, (HEERF II) in December 2020. Under previous guidance, only expenditures incurred after December 27, 2020, were eligible to be recovered with HEERF II funds. However, on March 19, 2021, the Department of Education released an updated guidance document to grant flexibility to recipients to allow them to charge to HEERF II costs and lost revenue dating as far back as March 13, 2020, which was the date that the national emergency related to COVID-19 was declared. The Department of Education simultaneously issued a comprehensive FAQ document on how institutions of higher education with HEERF II funding are to calculate lost revenues for HEERF eligibility, along with illustrative examples.

In addition to the guidance issued on the eligible start date to incur HEERF expenditures and the calculation of lost revenue, the Department of Education also clarified in a letter to HEERF grantees that ESF has not been designated as an automatic high-risk program for single audit major program determination. Instead, auditors should treat ESF as a new program that has not previously been audited.

Practical Consideration:

The HEERF II guidance documents, along with background information and latest news, are available on the Department of Education HEERF II Guidance website at **www2.ed.gov/about/offices/list/ope/crrsaa.html**. Direct links to the documents mentioned in this article are as follows:

- Updated guidance document: **www2.ed.gov/about/offices/list/ope/g5updateletter31921.pdf**
- FAQ document on lost revenues: **www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf**
- Letter to HEERF grantees on audit requirements: **www2.ed.gov/about/offices/list/ope/heerfauditletter.pdf**

Provider Relief Fund

The 2020 Compliance Supplement Addendum indicated that healthcare entities who received and expended (or replaced lost revenue) with the U.S. Department of Health and Human Services (HHS) Provider Relief Fund (PRF) (CFDA/Assistance Listing No. 93.498) will *not* include those amounts on the SEFA prior to December 31, 2020, year ends. The reason for this unusual and inconsistent treatment is so that SEFA reporting will link to calendar year reporting for HHS. For entities with years ending December 31, 2020, and later, PRF expenditures, including lost revenue, will be reported on the SEFA.

However, at the time of this publication, HHS has not opened its PRF Reporting Portal for anything other than recipient registration, meaning that auditors are unable to test HHS reporting, as required by the 2020 Compliance Supplement Addendum. Therefore, recipients of PRF funding with years ending on or after December 31, 2020, are not able to complete their single audits at this time. Auditors should continue to monitor communications from HHS at **www.hhs.gov/coronavirus/cares-act-provider-relief-fund/reporting-auditing/index.html**.

Practical Consideration:

HHS continues to update their FAQ document on PRF. That document can be accessed at **www.hhs.gov/sites/default/files/provider-relief-fund-general-distribution-faqs.pdf**.

SEFA Scenarios Practice Aid

The GAQC has released a nonauthoritative practice aid to assist recipients and auditors determine the appropriate presentation of federal expenditures on an accrual-basis SEFA, due to the complexities of reporting many of the new COVID-19-related federal award programs. The practice aid addresses both the amount of award and the timing of when awards should appear on the SEFA (excluding PRF funding) and can be accessed on the AICPA's website at **www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/downloadabledocuments/aicpa-gaqc-nonauthoritative-covid-19-scenarios.pdf**.

Audit Quality Deficiencies

The AICPA Professional Ethics Division conducts technical reviews of engagements that are subjects of investigations. The Division published a report, as of December 31, 2019, highlighting quality issues in technical reviews performed over the prior two years. Of their 569 investigations, 140 involved government, not-for-profit, and single audit engagements.

The AICPA intends for practitioners to use this report to identify areas of potential risk in their practices, better understand and comply with the AICPA *Code of Professional Conduct*, and avoid potential ethics violations.

This article covers many common issues that auditors should be aware of as they transition into the primary audit season for governmental entities.

Audit Deficiencies

Evidence and documentation. Deficiencies in obtaining sufficient appropriate audit evidence and documentation were the most frequent audit quality issues across all engagements.

Failure to exercise due professional care. Inconsistencies between the financial statements and notes was the most common example of this failure.

Inadequately documenting independence required by Government Auditing Standards. Auditors frequently failed to document their evaluation of management's ability to oversee nonaudit services performed, including designating an employee with suitable skills, knowledge, or experience.

Single audit:

- Major programs not accurately identified due to improper classification as a low-risk auditee.
- Failure to test, or document the testing of, the operating effectiveness of internal controls over compliance and the testing of compliance for all compliance requirements subject to audit that are direct and material to the major program.
- Inadequate evaluation of the risk of material noncompliance and failure to document how risk assessment of material noncompliance was applied to the audit procedures performed.
- Regarding sampling:
  - Sample methodology not documented.
  - Sample size not appropriate based on the risk assessment of material noncompliance.
  - Sample selected from an inappropriate population.

Other audit deficiencies:

- Failure to undergo a peer review required by the AICPA, state CPA society, state board, or *Government Auditing Standards*.
- Lack of competence to complete the audit under professional standards.
- Noncompliance with CPE requirements outlined in *Government Auditing Standards*.

Reporting, Presentation, and Disclosure Deficiencies

Deficiencies included the following:

- Auditor's reports were not in accordance with professional standards, including requirements relating

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to modified opinions, responsibility for supplementary information, dual-dates, and group audits. There were also failures to comply with AU-C 700.

- Financial statement errors included:
  - Cash flow statements with incorrect classification or presentation.
  - Comparative financial information inaccurately reported or presented.
  - Disclosure issues in a number of areas including post-retirement benefits, investments, capital assets, debt service, leases, related parties, fair value, accounts receivable, inter/intrafund balances, and subsequent events.
- Financial statement errors specific to health care organizations failed to disclose patient service revenue, charity care, a performance indicator, and third-party settlements.
- Presentation and disclosure issues related to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, included but were not limited to:
  - Funds improperly presented as a special revenue fund when they did not meet its definition.
  - Improper classifications of fund balance.
  - Missing or insufficient disclosures.
- Failure to include all disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures—An Amendment of GASB Statement No. 3*, including but not limited to the credit quality ratings.
- Incomplete schedule of expenditures of federal awards.
- Inaccurate and/or incomplete findings in the schedule of findings and questioned costs.
- Inconsistencies in deficiencies identified in the schedule of findings and questioned costs and in the auditor's reports on the financial statements, internal control over financial reporting, internal control over compliance, compliance for major federal programs, and compliance with provisions of laws, regulations, contract, and award agreements.
- Summary of auditor's results was inaccurate or failed to include the type of opinion issued, deficiencies, low-risk auditee classification, identification of major programs, and/or the threshold for Type A programs.

Firm Management Issues

Deficiencies included the following:

- The firm's peer review was not current.
- The staff was not in compliance with CPE requirements.

Advice for Improvement

Based on the items noted in this article, there are many areas that can be improved upon when it comes to audit quality. Please consider these areas and issues as you perform your next audit and renew your commitment to audit quality.

Practical Consideration:

The complete report is available on the AICPA website at **www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/tools/downloadabledocuments/common-deficiencies-report-govt-and-nfp-final.pdf**. The report notes that the investigations stem from referrals from state and federal regulatory agencies. Because there is a time lag due to the referral and investigation process, some of the findings are from audits performed during 2015–2017. However, the report notes that these areas of quality concern continue to exist.