

THE PPC GOVERNMENTAL UPDATE

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COVID-19 Implications for Single Audits



The federal government's response to the ongoing coronavirus pandemic has been unprecedented, resulting in significant federal financial assistance being provided to individuals, small businesses, nonprofit organizations, schools, health-care entities, and state and local governments. Much of this funding, which may be received directly or indirectly from the federal government, may require many local governments and nonprofit entities that have historically received little to no federal funding to be subject to a single audit for the first time. Some industry experts estimate that 6,000 additional single audits will be performed for 2020.

Other organizations that routinely qualify for a single audit due to the \$750,000 single audit threshold will likely have new COVID-19-related programs and additional COVID-19-related funding to existing programs. OMB has also allowed federal agencies to provide additional flexibility and waivers of compliance requirements in existing programs. Auditors need to

consider the implications of the COVID-19 pandemic on their single audits.

Planning Considerations

During the planning process, identifying new COVID-19 programs and determining whether they are subject to the single audit is critical in accurately determining the amount of federal expenditures, which determines the single audit threshold and impacts major program determination due to the following:

- Increased funding from COVID-19-related awards could affect the Type A/B program threshold.
- Because the new COVID-19 programs have not been audited before, they may prevent Type A programs from being low risk due to not being audited as major programs in at least one of the two most recent audit periods (that is, they would not have met the two-year lookback criterion).
- New COVID-19 programs may also be Type B programs.

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- While inherent risk is considered in the Type B program risk assessment, the Uniform Guidance does not permit the auditor to consider inherent risk in evaluating whether there is significantly increased risk for a Type A program.

Risk Assessments During Planning

If the client received COVID-19 funding for existing programs, the auditor needs to consider the effect on Type A and B risk assessments during planning. If, during the risk assessment process, it is determined that there is a significant increase in program risk due to changes in personnel or systems because of COVID-19, a Type A program that would have been low risk might no longer be low risk.

When evaluating or assessing Type B programs, auditors need to consider whether additional funds create new risk factors and inherent risk, such as the newness of the programs. It is important to note that there is no specific requirement to select a COVID-19 Type B program for audit.

COVID-19 and the Compliance Supplement

Appendix VII of the Compliance Supplement states that COVID-19-related awards must be separately reported on the schedule of expenditures of federal awards and the data collection form. This requirement relates not only to COVID-19-related funds expended for new programs but also to those expended for existing programs. Expenditures of COVID-19-related funds must be separately reported even if there is no new CFDA number. This requirement for explicit identification of new and existing program COVID-19 expenditures also extends to the findings presented in the Schedule of Findings and Questioned Costs, if applicable.

Because of the timing of development and approval of Compliance Supplement changes and the evolving nature of the COVID-19 pandemic and related legislation and programs, the 2020 Compliance Supplement contains minimal information about the COVID-19 pandemic and related programs.

The OMB had planned on releasing an addendum to the Compliance Supplement in the fall of 2020 that would have addressed new COVID-19-related programs and information on modified compliance requirements that are relevant to COVID-19 for existing programs. As this newsletter was being finalized, OMB announced the release of the addendum at the end of December. The 2020 Compliance Supplement Addendum will be covered in detail in the next edition of this newsletter.

Many practitioners (and organizations receiving federal awards) had questioned whether they could appropriately complete a single audit and issue their reports before the addendum was available. The Compliance Supplement states that reports issued prior to the publication of the addendum were not required to adhere to its requirements. However, due to the critical nature of the information expected in the addendum, AICPA representatives and key industry opinion leaders strongly urged auditors of organizations that received COVID-19-related awards (whether through new or existing programs, or through changes made to existing programs due to COVID-19) not to complete and report on their June 30, 2020, or later single audits without using the addendum, unless expenditures under these awards are clearly immaterial.

Practical Consideration:

The 2020 Compliance Supplement Addendum, to be discussed in the next edition of this newsletter, can be found at www.whitehouse.gov/omb/office-federal-financial-management/.

Determining Current Compliance Requirement

Because of the COVID-19 pandemic, many existing federal programs may have changes to the compliance requirements subject to audit. During planning, it is important that auditors identify existing programs that may have had compliance requirements subject to audit modified or relaxed for part of the year. Auditors may consider:

- Talking to clients about how they are identifying changed requirements.
- Reviewing federal guidance issued for various programs.
- Checking the future Compliance Supplement addendum to determine if it includes revised sections for existing programs with changes.

To help summarize the COVID-19 funding, the AICPA's Government Audit Quality Center has prepared a non-authoritative summary of the new COVID-19 programs and whether each one is subject to the single audit. The summary also includes links to agency websites for further guidance and some additional notes about what is posted on the <https://beta.sam.gov> website. The AICPA intends to update this summary periodically based on the federal government website and information from federal agencies. Auditors should refer to the date at the top of the summary to be sure they

are consulting the latest version. This summary can be found at www.aicpa.org/interestareas/governmentalauditquality.html.

OMB has published a listing of all COVID-19 programs and their CFDA/Assistance Listing numbers at www.cfo.gov/financial-assistance (under the Guidance, Policies and Resources link, select CARES Act & M-20-21 Recipient Frequently Asked Questions, published June 24, 2020). An asterisk by the CFDA/Assistance Listing number indicates it is a new CFDA/Assistance Listing number.



GASB Issues Documents for Public Comment

Over the summer, the GASB issued two exposure drafts (EDs) and one preliminary views (PV) document that are available for review and public comment. The deadline for submitting written comments for each document is February 26, 2021.

A *preliminary views* document from the GASB is published at the early stages of a project and precedes an exposure draft. Simply put, it provides the public with the GASB's preliminary views on the relevant topic, while requesting feedback from stakeholders, but before determining whether, and with what content, a future exposure draft might be issued. An *exposure draft* is further down the path of the GASB's due process and contains a proposed statement or concept. The GASB considers all feedback received throughout the process before issuing final guidance.

Financial Reporting Model Improvements (ED)

One of the most significant proposals in this ED is to replace the current financial resources measurement focus and the modified accrual basis of accounting, used in reporting the governmental funds, with a short-term financial resources measurement focus and the accrual basis of accounting. The objectives of the proposal are to improve the effectiveness of the financial reporting model for decision-making and government accountability, as well as to address certain application issues.

The current financial resources measurement focus and the modified accrual basis of accounting have been one of the more controversial aspects of governmental accounting and continue to challenge policymakers and stakeholders. The proposal includes discussion of the measurement focus and basis of accounting for the governmental funds and the related recognition concepts.

Other significant components in the reporting model that the Board is proposing to update include the following:

- Reporting requirements for management's discussion and analysis.
- Reporting for unusual or infrequent items.
- Titles for governmental fund statements.
- Adding a separate category in proprietary fund statements for noncapital subsidies.
- Eliminating the option to present budgetary comparisons as part of the basic financial statements.
- Reporting major component unit information.
- Additional revisions to note disclosures to reflect recent changes for reporting additional intangible right-to-use assets and the related liabilities for those long-term agreements.

Practical Consideration:

This project is directly linked to the concepts statement ED, *Recognition of Elements of Financial Statements*. These projects are not likely to be finalized until 2022. The proposed effective date in the *Financial Reporting Model Improvements* ED is for fiscal years beginning after June 15, 2024 (governments with revenues of \$75 million or more), or June 15, 2025 (governments with revenues of less than \$75 million).

Recognition of Elements of Financial Statements (ED)

This ED would establish a Concepts Statement aimed at assisting practitioners in applying the proposed standard outlined in *Financial Statement Improvements* ED. It establishes criteria for when elements of the financial statements would be recognized under the short-term financial resources measurement focus. The primary objective of the recognition project is to develop a framework of recognition concepts for financial statements that are currently prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

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Revenue and Expense Recognition (PV)

This PV explores significant changes to the revenue and expense recognition model for governments. The objectives of the project are to improve the understandability, reliability, relevance, consistency, and comparability of revenues and expenses, in order to improve the information's usefulness in decision-making, and in assessing a government's accountability.

The proposed model would focus on an analysis of underlying binding arrangements and change the existing terminology from *exchange*, *exchange-like*, and *nonexchange* to *Category A* or *Category B*. Most nonexchange transactions would be considered *Category B*, which would include derived revenues, imposed revenues, contractual binding arrangements, general aid to governments, and shared revenues among governments. The model establishes the recognition criteria categories for revenues and expenses based on the following four characteristics:

- the existence of a binding agreement,
- mutual consent among the parties,
- if the parties have substantive rights and obligations, and
- whether those rights and obligations are interdependent.

If there is no binding agreement, the transaction is excluded from the recognition model. If a transaction contains all four characteristics, it qualifies as a *Category A* transaction. If one or more of the characteristics do not apply, the transaction is a *Category B* transaction. *Category A* transactions would be recognized based on the satisfaction of performance obligations, while *Category B* transactions would be recognized based on five subcategories that are similar to existing classifications of nonexchange transactions.

There are public hearings and user forums scheduled for March and April of 2021 for each of the two exposure drafts and the preliminary views document discussed in this article. Stakeholders are encouraged to carefully review these GASB proposals and to submit written comments and/or written intent to participate in the user forums and public hearings by the February 26, 2021, deadline.

Practical Consideration:

The full text of the exposure drafts and the preliminary views document is available on the GASB website at gasb.org/exposure-documents and on Checkpoint at checkpoint.riag.com.

