

THE PPC GOVERNMENTAL UPDATE

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Errors Discovered in the 2019 Compliance Supplement



Auditors performing Single Audits for 2019 should be aware of errors and inconsistencies in the OMB's June 2019 Compliance Supplement. In response to questions and comments by users, the AICPA issued a formal 16-page comment letter to the OMB on August 5, 2019, concerning these issues and requesting action by the OMB.

Quick Recap of Changes to the 2019 Compliance Supplement

Before getting into the AICPA's comment letter, you might recall that we reported on significant changes to the 2019 Compliance Supplement in last month's newsletter.

The "six-requirement mandate" or "Pick Six," as it is called, is the most notable change, alongside the "subject to audit" concept instead of applicable compliance requirements. Each Federal agency was mandated by OMB to limit the number

of compliance requirements subject to the audit to six compliance requirements (except that compliance requirements A and B count as one compliance requirement for this test and that the Research and Development Cluster's maximum number is seven). Under the new guidelines, a program with a "Y" in the Part 2 matrix means that the compliance requirement is subject to the audit for the program. A program with an "N" in the Part 2 matrix means that type of compliance requirement is not subject to the audit for the program and the auditor is not expected to test the requirement. Awards not in the Compliance Supplement are not subject to the six-requirement mandate. Auditors will continue to identify the applicable compliance requirements for each of those awards in accordance with Part 7 of the Compliance Supplement.

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Overview of the AICPA's Comment Letter

The AICPA's letter has three main sections:

- Concerns needing immediate action for 2019 audits
- Other comments and suggestions for the 2020 Compliance Supplement
- Attachments

Concerns Needing Immediate Action—Obviously, auditors will want to look closely at the first section of the AICPA comment letter regarding concerns for 2019 audits. Some of the concerns noted are:

- Programs listed as new that were in the 2017 and 2018 Supplements.
- Programs listed as deleted in some parts but not in other parts.
- One single program is identified as a cluster in part 5.
- Inconsistencies between the Part 2 and Part 4 matrices for individual programs.
- Performance reporting and special reporting issues.
- Part 6 illustrative controls errors.

As you can see from this list, there is cause for serious concern in relying on the 2019 Compliance Supplement without consideration of these errors.

Comments and Suggestions for 2020—The comments and suggestions for the 2020 Compliance Supplement involve the update process and several other topics. A better quality-review process is suggested and explained. In addition, an alternative approach to the six-requirement mandate is suggested, but if the OMB decides to retain it, changes are suggested.

Attachments—The following attachments to the letter contain a detailed list of errors and issues:

- Attachment 1, a list of specific errors and inconsistencies by CFDA number, and
- Attachment 2, a list of SFA cluster questions provided to the Department of Education.

As a starting point for 2019 audits, auditors might want to do a quick search of the AICPA letter by CFDA number to see if their client's programs are addressed. In addition, they should carefully evaluate the compliance requirements subject to audit and consult with the oversight agency if needed.

Practical Consideration:

The AICPA's comment letter can be found on their website at <https://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/aicpacommentletteron2019csupplement.pdf>.

Late-Breaking Update

As this newsletter went to press, the OMB released a corrected version of the 2019 Compliance Supplement in response to the AICPA letter with an August date. From a quick glance, it appears that it addresses many of the issues identified by the AICPA in its letter. It can be found at <https://www.aicpa.org/interestareas/governmentalauditquality/resources/singleaudit/2019-omb-compliance-supplement.html>. We'll cover it in detail in next month's issue of this newsletter. In addition, we are revising our SMART Practice Aids—Single Audit Suite to address the corrected 2019 Compliance Supplement.



New Data Collection Form

In June 2019, the Federal Audit Clearinghouse issued the 2019 Form SF-SAC, also known as the Data Collection Form (DCF), and related instructions. We reported on the proposed changes in the August 2018 edition of this newsletter, but not all of those changes were adopted in the final DCF.

Schedule of Expenditures of Federal Awards (SEFA)

The SEFA and related notes may now be customized by the user. In addition, the notes to the SEFA will now be included in Part II, Item 2, of the DCF. This includes—

- a description of the significant accounting policies used in preparing the SEFA,

- whether the auditee elected to use the *de minimis* cost rate, and
- any additional notes included in the reporting package, excluding charts, tables, or footnotes.

Text of Audit Findings

The full, detailed text of audit findings exactly as they appear in the Schedule of Findings and Questioned Costs (SFQC), excluding charts, tables, or footnotes, are now included in Part III, Item 5, of the DCF.

Corrective Action Plan

The full, detailed text of the auditee's Corrective Action Plan (CAP), excluding charts, tables, or footnotes, are now included in Part IV of the DCF.

Practical Consideration:

For charts and/or tables within the text of the SFQC and the CAP, the user will now enter a notation in the transferred text to see the actual underlying note, SFQC, or CAP for relevant charts and tables.

Auditee Certification Statement

The auditee certification statement in Part V, Item 1, now references the *data* in the DCF, rather than the DCF itself. This change facilitates the presentation of data provided in the DCF in different formats to allow users of the data to perform analytics.

Auditor Statement

The auditor statement in Part V, Item 2, was revised to update the references to the revised DCF.

Final Note

A couple of the proposed changes were *not* included in the final DCF. Originally, the text of management letter comments for issues that were not audit findings, but that warranted the attention of management, were proposed to be included in the DCF. Indicating the date that the entity received the full, complete report from the auditor was also proposed to be included. However,

these proposed changes were subsequently removed from this edition of the DCF.

Practical Consideration:

The 2019 DCF is to be used for audits covering fiscal periods ending in 2019, 2020, and 2021. The 2019 DCF and instructions are currently available at <https://harvester.census.gov/facweb>.



Updated AICPA Audit and Accounting Guide on State and Local Governments

The AICPA recently released its Audit and Accounting Guide, *State and Local Governments* (SLG), updated through March 1, 2019. SLG provides valuable guidance to auditors and accountants working in the area of state and local governments. It is intended to help practitioners properly record transactions in accordance with generally accepted accounting principles (GAAP) as well as audit and report on those financial statements in accordance with generally accepted auditing standards (GAAS).

The accounting guidance in SLG, specifically made applicable to state and local governmental entities by the AICPA and cleared by the GASB, is considered category B GAAP and is detailed in Appendix B. AICPA members should be prepared to justify departures from GAAP.

The auditing guidance in SLG is considered to be interpretive, which means it does not establish auditing standards but provides recommendations on applying GAAS in specific circumstances. AU-C 200 requires auditors to consider applicable interpretive publications in planning and performing their audits.

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What's New

The preface identifies the following as being significant to SLG:

- SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, issued in May 2019 and effective for audits of financial statements for periods ending on or after December 15, 2020, with early implementation not allowed; and
- SAS 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, issued in July 2019 and effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2020, with early implementation not allowed.

While the preface includes a summary of both SAS 134 and SAS 135, SLG has not been updated to reflect these Standards. Consistent with prior practice, authoritative guidance issued as of March 1, 2019, and effective as of June 30, 2019, is incorporated directly into the text of SLG. Guidance effective after June 30, 2019, is summarized in a guidance update box.

Appendix D reflects changes to SLG from the following sources:

- GASBS No. 83, *Certain Asset Retirement Obligations*
- GASBS No. 84, *Fiduciary Activities*
- GASBS No. 85, *Omnibus 2017*
- GASBS No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASBS No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASBS No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- SEC Rule 15c2-12 (Title 17 U.S. Code of Federal Regulations Part 240.15c2-12)

Practical Consideration:

If you subscribe to AICPA materials on Checkpoint, you can access the 2019 edition of SLG at checkpoint.riag.com. Subscriptions may be obtained by calling (800) 431-9025 or visiting tax.thomsonreuters.com.

