

# THE PPC GOVERNMENTAL UPDATE

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## 2019 Compliance Supplement Released



**O**n July 1, 2019, the Office of Management and Budget (OMB) released the 2019 Compliance Supplement. Unlike the 2018 Compliance Supplement, which was referred to by some as a “Skinny” Supplement (because it only modified sections of the 2017 Compliance Supplement that were in need of significant revisions), the 2019 Compliance Supplement is a standalone document that has over 1,600 pages.

### Highlights

The changes to the 2019 Compliance Supplement are much more significant than those in the 2018 Compliance Supplement. Appendix V lists the changes from the 2018 and 2017 Compliance Supplements in detail. The following paragraphs highlight some of these changes.

**Limitation of the Number of Compliance Requirements.** One of the most significant changes to the 2019 Compliance Supplement was the limitation of the number of compliance requirements federal agencies could identify

### Practical Consideration:

*PPC's SMART Practice Aids—Single Audit Suite* automates the process of building compliance audit programs from the Compliance Supplement for the programs selected as major programs. It allows the auditor to plan and execute the single audit engagement from beginning to end—including preparation and electronic sign-off of practice aids, federal award audit programs, and compliance audit programs. In addition, it automates the process of determining major programs; low-risk auditee status; and appropriate compliance requirements, objectives, and audit procedures; and prepares the compliance audit program and schedule of expenditures of federal awards (SEFA). Information about other additional features, including automated roll forward from year to year and a federal award import feature, is available by calling (800) 431-9025 or visiting [tax.thomsonreuters.com](https://tax.thomsonreuters.com).

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as being subject to the compliance audit. In order to reduce the burden on the recipient in accordance with the President's Management Agenda, each federal agency was mandated to limit the number of compliance requirements subject to the audit to six, except for the Research and Development cluster, which was permitted to identify seven. To get to the six requirements subject to the audit, the requirements relating to A. Activities Allowed and Unallowed and B. Allowable Costs and Cost Principles are treated as one requirement. Many auditors are referring to this new approach in the Compliance Supplement as the six-requirement mandate or Pick Six.

Part 2 of the Compliance Supplement, the Matrix, has been revised to reflect this change for all programs, as well as the related program sections in Parts 4 and 5. 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. (Previously, a "Y" in the matrix meant that the compliance requirement applied to the program.) The auditor will still have to determine whether the requirements could have a direct and material effect on 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. (Previously, an "N" in the matrix meant that the compliance requirement normally did not apply to the program.)

**Federal Programs Not Included in the Compliance Supplement.** Auditors should note that the six-requirement mandate does not apply to programs not included in the Compliance Supplement. Auditors should continue to use the Part 7 guidance to identify the compliance requirements that are applicable to the program and then determine which of the applicable compliance requirements could have a direct and material effect on the program. As a result, auditors may have to test more than six compliance requirements for programs that are not included in the Supplement.

**Safe Harbor Status and Other Requirements.** Auditors should carefully review the guidance and changes in Part 1 of the Compliance Supplement about the safe harbor status and responsibility for updating compliance requirements. The safe harbor guidance was updated to reflect the new definitions of "Y" (subject to audit) and "N" (not subject to audit). It also emphasizes the auditor's responsibilities for compliance under GAAS and the Yellow Book. It indicates that a requirement may not be subject to the audit for compliance

audit purposes, but auditors have a responsibility under GAAS and the Yellow Book related to noncompliance with the provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements and with requirements relating to the auditor's consideration of fraud and abuse.

**Spotlight on the Student Financial Assistance Cluster.** The single audit requirements for student financial assistance (SFA) programs are included in Part 5—Cluster of Programs. The 2019 Compliance Supplement contains the following changes for the SFA cluster:

- Removal of the Federal Perkins Loan Program. This program was discontinued by the Department of Education and disbursements are not permitted after June 30, 2018.
- New reporting requirements for Pell grants and Direct Loan programs related to the audit sample.
- Added requirements in Compliance Requirement N—Special Tests and Provisions related to (1) excess cash, (2) general program eligibility, (3) distance education programs, and (4) student information security [Gramm-Leach-Bliley Act (GLBA)]. The GLBA-related steps include determining if the institution designated an individual to coordinate the information security program, performed a risk assessment that addresses certain areas in the regulations, and documented safeguards for identified risks.
- Removed requirement in Compliance Requirement N—Special Tests and Provisions related to (1) Federal Work Study agreements, (2) zone alternative testing, and (3) consortium agreements.

**Internal Controls.** The guidance for Internal Controls is included in Part 6 of the Compliance Supplement. The 2019 Compliance Supplement includes updated discussions that focus on entity-wide controls over compliance and added appendixes that have illustrations of internal controls over federal awards and internal controls specific to each type of compliance requirement.

**Other Changes.** Other changes include the following:

- Part 2—The Matrix of Compliance Requirements highlights the changes in compliance requirements.
- Part 3—Compliance Requirement I, Procurement and Suspension and Debarment, included in Part 3.2, was updated to provide additional information on the National Defense Authorization Acts (NDAA) and audit findings.
- Part 4—Agency and Requirements was updated to reflect changes in program titles, by adding new programs, statutory requirements, and references, and to make technical changes and corrections.
- Appendix VII—Other Audit Advisories was updated on several topics.

**Practical Consideration:**

Users of the 2019 Compliance Supplement are reporting more errors and inconsistencies compared to previous editions. As a result, auditors should remain alert for possible additional communications from the OMB or the AICPA's Government Audit Quality Center (GAQC) regarding these errors.

**Effective Date**

The 2019 Supplement is effective for audits of fiscal years beginning after June 30, 2018, and supersedes the 2018 and 2017 Compliance Supplements. Unlike last year's Compliance Supplement, this means auditors should use the 2019 Compliance Supplement only for audits of fiscal years beginning after June 30, 2018.

**Practical Consideration:**

The 2019 Compliance Supplement is available on the OMB's website at [www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR\\_Part-200\\_Appendix-XI\\_Compliance-Supplement\\_2019\\_FINAL\\_07.01.19.pdf](http://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf). Additionally, the GAQC presents the 2019 Compliance Supplement by individual section at [www.aicpa.org/interestareas/governmentauditquality/resources/singleaudit/2019-omb-compliance-supplement.html](http://www.aicpa.org/interestareas/governmentauditquality/resources/singleaudit/2019-omb-compliance-supplement.html).



## Updated Audit Guide on Yellow Book and Single Audits

The AICPA recently issued the March 2019 update of its audit guide, *Government Auditing Standards and Single Audits* (Guide). This Guide is for audits performed in accordance with *Government Auditing Standards, December 2011 Revision* (Yellow Book) and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

An AICPA audit guide is considered to be an interpretive publication. Interpretive publications do not establish auditing standards but instead provide recommendations on applying GAAS in specific circumstances. Auditors are required to consider applicable interpretive

publications in planning and performing their audits. If the auditing guidance in an applicable interpretive publication is not applied, the auditor should document how the GAAS requirements were complied with in the circumstances addressed by the guidance.

**Purpose and Applicability**

Consistent with the 2018 edition, the Guide is organized into two parts: Part I, which discusses considerations for audits performed under *Government Auditing Standards*, and Part II, which discusses single audits and program-specific audits performed under the Uniform Guidance.

The effective date of *Government Auditing Standards*, 2018 Revision (2018 Revision), is for audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Therefore, the first fiscal year that financial audits will be performed under the 2018 revision will be for June 30, 2020, year ends. Due to this effective date, the 2018 revision has not been incorporated into the Guide. However, update boxes and note boxes have been included in various places of the Guide to remind auditors of important considerations relating to upcoming changes, particularly as it relates to the auditor independence requirements that may need to be considered prior to the June 30, 2020, effective date. This is necessary because the auditor is required to be independent from an audited entity during any period of time that falls within the period covered by the financial statements or subject matter of the engagement and the period of professional engagement.

At the time the Guide was submitted for publication, the 2019 OMB Compliance Supplement had not been issued. Therefore, the information in the Guide is based on the draft version of the 2019 Compliance Supplement. The OMB released the final 2019 Compliance Supplement on July 1, 2019, and it is effective for single audits of fiscal years beginning after June 20, 2018.

**Practical Consideration:**

The Guide incorporates authoritative material with varying effective dates. Note that guidance that was issued as of March 1, 2019, and effective on or before June 30, 2019, has been incorporated directly into the text of the Guide. However, guidance effective after March 1, 2019, is presented in a gray shaded format with the accompanying effective date presented in footnotes. Guidance not becoming effective until after June 30, 2019, is referenced in a guidance update box.

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Some of the guidance that was considered and included as appropriate in this update includes:

- Statement on Auditing Standards No. 133, *Auditor Involvement With Exempt Offering Documents* (AU-C 945).
- Interpretations issued (or reissued) through March 1, 2019.
- The Single Audit Act Amendments of 1996.
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- *Government Auditing Standards*, 2011 Revision.
- *Government Auditing Standards*, 2018 Revision.
- *Frequently Asked Questions for the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200*, issued up through March 1, 2019.

## Notable Changes

Most of the changes in the Guide were made for clarification purposes and were not a result of the issuance of authoritative guidance:

- Clarifying revisions were made in Chapter 4 on: (1) how the objective of reporting on internal control over financial reporting in an audit under *Government Auditing Standards* differs from the objective of an audit of internal control in accordance with AU-C section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*; and (2) presenting findings in the auditor's report on internal control over financial reporting and on compliance and other matters.
- Chapter 5 notes that the Catalog of Federal Domestic Assistance (CFDA) numbers and program information formerly found at [CFDA.gov](http://CFDA.gov) has been moved to <https://beta.sam.gov>.

- An emphasis point on preparation of the indirect cost proposal was clarified in Chapter 5.
- A discussion on agreeing upon the terms of the engagement with management was revised and expanded in Chapter 6.
- Added a point to Chapter 7 that auditors should assess the impact that providing nonaudit services has on independence.
- Added a note in Chapter 8 stating that an auditee cannot be considered a low-risk auditee if it uses a basis of accounting other than GAAP, unless doing so is required by state law and the audit opinion is unmodified.
- Revised the discussions in Chapter 12 regarding subrecipient monitoring considerations in a single or program-specific audit and subrecipient's risk of noncompliance.
- Added multiple points in Chapter 13 regarding the auditee-prepared corrective action plan and also revised a point about the auditee portion of the data collection form to note that it is the responsibility of management.
- Revised many of the Example Reports on Compliance in Chapter 13.

Many other changes were made due to the passage of time and to provide clarification. Users of the Guide should consult Appendix B of the Guide for further details.

### Practical Consideration:

The Guide is available from the AICPA at [www.aicpastore.com](http://www.aicpastore.com) or on Checkpoint at [checkpoint.riag.com](http://checkpoint.riag.com).

