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OMB Issues the 2021 Compliance Supplement

As governmental auditors are well aware, the Office of Management and Budget (OMB) has struggled to release the annual Compliance Supplement in a timely manner in recent years, causing many issues and difficulties in the compliance audit community. On top of that, the COVID-19 pandemic has resulted in the federal government pumping massive amounts of additional funding to not only the traditional state and local government and nonprofit recipients, but now also to for-profit recipients, resulting in new and expanded award programs and necessitating the issuance of a Compliance Supplement Addendum in 2020 and another one for 2021.

On August 12, 2021, the OMB issued the initial version of the 2021 edition of the OMB Compliance Supplement. On August 25, 2021, the OMB replaced the August 12 edition with a corrected version. The 2021 Compliance Supplement is effective for audits of fiscal years beginning after June 30, 2020, and supersedes the 2020 Compliance Supplement, including its Addendum.

Practical Consideration:

The Compliance Supplement is available at **www.whitehouse.gov/wp-content/uploads/2021/08/OMB-2021-Compliance-Supplement_Final_V2.pdf**.

Highlights

Appendix V lists the changes made to the 2021 Compliance Supplement in detail. The following paragraphs highlight some of the key changes.

2021 Compliance Supplement and COVID-19. The 2021 Compliance Supplement does not address new COVID-19-related programs that resulted from the American Rescue Plan Act of 2021 (ARP). Because the initial 2021 Compliance Supplement does not contain new COVID-19-related programs that resulted from ARP and related compliance requirements, many practitioners (and governmental units receiving federal awards) have questioned whether they

In this Issue:

- OMB Issues the 2021 Compliance Supplement
- AICPA Peer Review Board Releases Examples of Matters in Peer Reviews

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can appropriately complete a single audit and issue their reports before the addendum is available. The Compliance Supplement states that reports issued prior to the publication of an addendum are not required to adhere to its requirements. However, due to the critical nature of the information expected in the addendum, AICPA representatives and industry opinion leaders are strongly urging auditors of governmental units that received COVID-19-related awards that resulted from ARP (whether through new or existing programs, or had changes made to existing programs due to ARP) not to complete and report on their June 30, 2021, or later single audits until the addendum has been released and analyzed.

Part 2—Matrix of Compliance Requirements. Current year changes are shown with yellow highlights; corrections are shown with blue. The six-compliance requirement mandate that was first introduced in the 2019 Compliance Supplement remains in effect. *This six-requirement mandate continues to not apply to programs not included in the Compliance Supplement.*

Part 3—Compliance Requirements. Changes include:

- Part 3 of the 2021 Compliance Supplement has been updated to reflect changes in the revised Uniform Guidance issued in August 2020. Two provisions of the new Uniform Guidance were effective immediately while the remainder were effective for awards received after November 12, 2020. For 2021, the revisions are not called out separately as they have been in the past and auditors will need to check the award terms and conditions to determine the correct version of the Uniform Guidance to follow when testing awards subject to audit.
- The 2020 Uniform Guidance revisions also include updates to certain purchase thresholds for procurement included in Part 3.
- Part 3 of the 2021 Compliance Supplement has fully incorporated requirements of the Federal Funding and Accountability and Transparency Act (FFATA) that was originally included in the 2020 Addendum along with guidance concerning when auditors must test FFATA.

Practical Consideration:

The 2021 Compliance Supplement includes revised terminology as the OMB now refers to program numbers as Assistance Listing (AL) numbers instead of the Catalog of Federal Domestic Assistance (CFDA) numbers.

Part 4—Agency Program Requirements and Part 5—Clusters of Programs. Updates reflect program additions and deletions, program title changes, COVID-19 and statutory requirement updates, reference updates, and technical changes and corrections.

Appendix IV—Internal Reference Tables. Appendix IV adds a number of COVID-19-related programs to federal programs that have been designated as "higher risk." The upcoming addendum is expected to include additional ARP programs that will be designated as "higher risk." Appendix IV indicates that, generally, new ARP Type A programs must be audited as a major program because, in most cases, new ARP programs will not have been audited in one of the two most recent audit periods. However, it further states that an auditor is not precluded from determining that a "higher risk" non-ARP Type A program or cluster qualifies as a low-risk Type A program if both of the following criteria are met:

- The program otherwise meets the criteria for a low-risk Type A program under 2 CFR 200.518 and
- The percentage of COVID-19-related funding in the program is immaterial to the program or cluster.

Lastly, the inclusion of COVID-19-related funding within the Research and Development (R&D) cluster does not create a "higher risk" for the R&D cluster, and Type B programs designated as higher risk in the Compliance Supplement need not be prioritized ahead of other Type B programs in the major program determination risk assessment process.

Appendix VII—Other Audit Advisories. Updated section I, Novel Coronavirus (COVID-19), includes additional guidance on COVID-19 funding and addresses OMB's plans to publish a subsequent addendum. Subsections include:

- Definition of COVID-19 funding
- Single audit due dates—Additional extension
- Treatment of donated personal protective equipment on the schedule of expenditures of federal awards (SEFA)
- Agency guidance document references
- Identification of COVID-19-related awards in various documents and single audit applicability
- Identification of compliance requirements for COVID-19-related awards
- Responsibilities for informing subrecipients
- Additional audit guidance for COVID-19 programs to be issued in follow-up addendum

Section I gives instructions to auditors that COVID-19-related awards should again be identified separately on the SEFA and the Data Collection Form as well as for audit findings. Section I also gives additional details concerning the facts and circumstances that precluded the initial Compliance Supplement from including new COVID-19-related programs funded under ARP or the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and further outlines the programs to be included in the addendum. Lastly, Section I highlights that there will be no new clusters formed by ARP or CRRSAA Assistance Listing numbers

nor will any ARP or CRRSAA Assistance Listing numbers be added to existing other clusters.

Practical Consideration:

PPC's SMART Practice Aids™—Single Audit Suite allows the auditor to plan and execute the single audit engagement from beginning to end—including preparation and electronic signoff 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 SEFA. Information about additional features, including automated rollforward from year to year and a federal award import feature, is available by calling (800) 431-9025 or visiting **tax.tr.com**.

AICPA Peer Review Board Releases Examples of Matters in Peer Reviews

The AICPA Peer Review Board issued *Examples of Matters in Peer Reviews, Engagements with Year-Ends between 1/1/2019 and 4/1/2020* earlier this year. The examples come from matters for further consideration (MFCs) prepared during peer reviews and are intended to help firms improve quality.

The examples fall into two categories: professional standards and practice areas. This article focuses on matters noted regarding auditing standards and the governmental practice area. However, matters noted in review and compilation standards, and other practice areas, may have application in audits of governmental entities, so a link to the full report is included below.

Matters Noted in Audits

The following failures were noted regarding the auditing standards:

- Planning procedures were not documented.
- Documentation and support for the assessed level of risk was not present.
- Fraud was not addressed.
- Audit documentation was insufficient.
- Established quality control policies and procedures were not followed.
- Management representation letters were not obtained.
- There was no communication with those charged with governance.

Matters Noted in the Governmental, Single Audit, and HUD Practice Areas

Matters relating to governmental entities, the single audit, and HUD audits included the areas of reporting, disclosure and presentation, and documentation and performance.

Reporting Failures:

- Required elements of the audit report were omitted, such as titles, reference to *Government Auditing Standards*, identification of major funds and opinion units, and reference to prior year financial statements in comparative presentations. In addition, supplemental information and required supplemental information were not addressed in the report.
- The auditor's report on Internal Control over Financial Reporting and on Compliance and Other Matters omitted "Independent" from the title. In addition, the report omitted or incorrectly referenced material weaknesses or significant deficiencies, or did not indicate that there were no significant deficiencies identified, in the Schedule of Findings and Questioned Costs.
- There was inadequate documentation related to the agreed upon procedures engagement that accompanies a public housing authority or multifamily single audit.
- Findings were not reported in the appropriate form in the Schedule of Findings and Questioned Costs.

Disclosure and Presentation Failures:

- Disclosures for fair value, debt, investments, and accounts receivable were missing.
- Fund balance and net position presentation and reconciliations were not in accordance with professional standards.
- Significant policy footnotes were missing.
- The REAC financial data templates were not included as supplemental information as required by HUD.

Documentation and Performance Failures—General:

- Documentation of independence considerations required by the Yellow Book, including the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor, evaluation of significant threats, and safeguards applied to reduce threats to an acceptable level was insufficient.

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- Yellow Book CPE requirements were not met, including 80 hours of audit and accounting and 24 hours of CPE directly related to government auditing, the government environment, or the specific or unique environment in which the auditee operates.
- Insufficient documentation of required communications with those charged with governance, including proper communication of internal control findings.
- Written representations from the audited entity did not include representations or representations covering both years when comparative financial statements were presented. Also, there was improper consideration of the date of the representations in relation to the audit report.
- There was insufficient documentation related to evaluation of actuary qualifications.
- Documentation of census data testing was inadequate.

Documentation and Performance Failures—Single Audit:

- Failure to identify and test sufficient and appropriate major programs, failure to cluster, failure to properly perform Type A and Type B program risk assessments, failure to group programs with the same CFDA number, and incorrect determination of the auditee as low risk resulting in insufficient coverage.
- SEFA documentation was not present for: (1) internal controls over the preparation of the SEFA, (2) procedures for determining whether the SEFA is fairly presented in all material respects, and (3) the reconciliation of the SEFA to amounts in the financial statements.
- A conclusion and documentation that either an applicable compliance requirement did not apply or that noncompliance could not have a direct and material effect on a major program was not present.
- Documentation of the understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each applicable compliance requirement and major program, was not present.
- Documentation of the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk was not present.
- Documentation of the risk of material noncompliance for the major program's compliance requirements occurring due to fraud was not present.

Prevention Strategies

Just being aware of these real-life examples of matters is a first step towards prevention of their occurring in your own engagements. However, the consistent and effective use of practice aids, such as audit programs and checklists, in addition to multiple layers of review, can go a long way in preventing these types of failures.

Practical Consideration:

The full text of the *Examples of Matters in Peer Reviews, Engagements with Year-Ends between 1/1/2019 and 4/1/2020* document can be downloaded from the AICPA's website at **www.aicpa.org/content/dam/aicpa/interestareas/peerreview/community/peerreviewers/downloadabledocuments/matters-in-pr.pdf**.