



**Questions from Conference Call
Avoiding the Most Common Single Audit Deficiencies
September 26, 2006**

1. How will the new definitions in SAS 112, *Communicating Internal Control Matters Identified in an Audit*, affect the determination of low-risk auditees on a go-forward basis?

Answer: The new control definitions in SAS 112 may ultimately lead to the reporting of more material weaknesses in internal control over financial reporting because the threshold for material weaknesses was lowered (SAS 112 becomes effective for audits of financial statements for periods ending on or after December 15, 2006). Going forward, this could possibly affect the low-risk auditee status of your clients. Slide 4 contains the low-risk auditee criteria. You can see that if your clients have a material weakness in internal control over financial reporting in either of the previous two years, your client will not be able to be considered a low-risk auditee (unless a waiver is obtained from the cognizant or oversight agency for audit). On another note, you should also be aware that the AICPA and OMB are currently working to determine and resolve issues related to implementation of SAS 112 in the single audit environment. Watch the [GAQC Web site](#) for updates.

2. This question deals with the low-risk auditee discussion as it relates to late data collection form (DCF) filing by clients. You stated that late DCF filing may result in clients not being able to be classified as a low-risk auditee in the next year. Circular A-133 defines the criteria for low-risk auditee status; however, late submission of a DCF is not mentioned as one of the criteria. Therefore, how do we as auditors justify to our clients that they cannot be considered a low-risk auditee because they submitted the prior year DCF late?

Answer: Some Inspectors General (IGs) are basing their conclusion that a late DCF filing precludes low-risk auditee status based on the criteria in section 530(a) of Circular A-133 which states that to be a low-risk auditee that single audits must have been performed on an annual basis in accordance with the provisions of "this part." "This part" refers to the entire Circular. Some IGs interpret this to mean that timely filing is necessary for an audit to have been performed in accordance with "this part." We should stress that this is a developing issue. Therefore, as the auditor, late DCF filing is something you should think about considering before calling an auditee low-risk. Talking it over with the cognizant or oversight agency is probably a good idea. The GAQC will continue to encourage the Office of Management and Budget and/or the IG community to issue more definitive guidance in this area. Watch the [GAQC Web site](#) for updates.

The following provides instructions on how you, as the auditor, can check the Federal Audit Clearinghouse (FAC) database to determine when your client's required submission was received. First, go to the [FAC Web site](#). Click on "Search the Single Audit Database" and then on the button "[Retrieve Records](#)". Then click on "[Advanced Entity Search](#)" which appears under the heading "Search for Status of Submissions." Once there, enter your client's name and look to the heading "Initial Date Received" to determine when your client's submission was received by the FAC.

3. For short-period single audits (audits of periods less than a year), how do you determine type A thresholds (\$300,000) and thresholds for total federal expenditures (\$500,000)? Are the thresholds reduced due to periods audited being less than a year?

Answer: The short-period audits you refer to are generally called “stub periods.” Paragraph 6.13 of the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits* (the GAS/A133 Guide), contains guidance for stub period audits. It states that thresholds are not reduced if the client's fiscal year is less than one year and that the current thresholds apply no matter the length of the client's fiscal year. It does, however, go on to say that the cognizant or oversight agency for audit or the pass-through entity should be contacted for advice on how stub periods should be addressed.

4. If your client's Type A programs are all high risk, do you audit **all** type A programs or type A programs up to the required 50% coverage (the threshold for testing for non-low-risk auditees)?

Answer: Every high-risk type A program is considered a major program. Therefore, you would audit all high-risk type A programs. Remember that you consider whether you have the appropriate percentage of coverage as the last step in the risk-based selection approach to selecting major programs. So, if you go through the entire risk-based process and you find that your percentage of coverage is 85%—you would have to test 85%. It is not appropriate to reduce testing to get down to the minimum percentage of coverage required.

5. Assume you have one high-risk type A and two low-risk A programs (because they had not been audited in either of the previous two years) that will be tested as major programs this year. Additionally, assume you have four other low-risk type A programs that won't be tested. Do you need to select one high-risk type B or three high-risk type B programs to be tested?

Answer: In this situation, the two Type A programs that were not audited in either of the previous two years would not be considered low-risk type A programs. Despite any of the other risk factors, if a type A program has not been audited in either of the previous two years, it cannot be considered a low-risk program. For the identification of high-risk Type B programs audited as major, the maximum number of programs to be audited as major would be based on four low-risk type A programs. You should refer to Chapter 9 of the GAS/A133 Guide to help answer these types of questions. If you have low-risk type A programs you need to make a determination whether to use Option 1 or Option 2 (see paragraph 9.18 of the Guide) in your risk assessment process. For your type B programs you must determine which option best fits your situation and this will lead you to the answer.

6. When we determine a type A program as low-risk and we still have adequate coverage (that is, 50% for a high-risk or 25% for low-risk auditee) with the high-risk type A programs, do we need to determine if any high-risk type B programs exist? In other words, is the assessment of type B programs for high-risk required to offset low-risk type A programs or is only adequate coverage needed?

Answer: If you have low-risk type A programs, you need to perform that next step and perform a risk assessment on your type B programs by using either Option 1 or Option 2 (see paragraph 9.18 of the GAS/A133 Guide). The number of high-risk type B programs you audit is based on the number of low-risk type A programs and which option you select. However, you should note that if you only have high-risk type A programs (and no low-risk type A programs) you do not need to perform a risk assessment for your type B programs.

7. Often it is difficult to determine whether a grant is federal and neither the client or state pass-through agency can provide good information. What suggestions do you have for the auditor in these situations?

Answer: Use your past experience to recognize federal awards even when the client is unsure if the funds are from a federal grant. It is recommended that you investigate and press on to obtain documented evidence that funds are not from a federal award because many times clients are uncertain. You can visit www.cfda.gov to search by CFDA number, key words, and programs to ensure you consider all federal programs when performing your major program determination.

8. Where is a good detailed example of a Schedule of Expenditures of Federal Awards (SEFA) and related footnotes?

Answer: Chapter 7 of the GAS/A133 Guide contains two illustrative SEFAs. One example involves a university and the other a not-for-profit organization. The illustrative notes include examples for basis of presentation, non-cash awards, and pass-through funds to subrecipient entities.

9. We are in the area affected by Hurricane Katrina. Frequently, governmental and not-for-profit entities obtained services from loaned employees from other governmental agencies. Would this be considered a non-cash award?

Answer: Because of the unusual nature of this situation, we suggest you seek guidance from the cognizant or oversight agency for audit. Be sure to document the discussion and guidance provided.

10. You mentioned reportable conditions in your discussion on segregation of duties. How will SAS 112 affect this area?

Answer: SAS 112 and the (expected) 2006 revision of *Government Auditing Standards* (also known as the Yellow Book) have similar examples for internal control deficiencies involving a lack of segregation of duties (see slide 25). Because SAS 112 changes the term reportable condition to significant deficiency and lowers the threshold for reporting, one would expect to see more reporting of a lack of segregation of duties.

11. Assume you have a small government with a lack of segregation of duties due to its size. However, the same government has put in compensating controls such as board oversight. Are you stating the Yellow Book and/or SAS 112 would still require us to report a significant deficiency?

Answer: Compensating controls (that have been tested and evaluated) may mitigate the effects of a control deficiency but they do not eliminate the control deficiency. A compensating control is a control that limits the severity of a control deficiency and prevents it from rising to the level of a significant deficiency or, in some cases, a material weakness. Start your analysis with the fact that anytime a lack of segregation of duties exists you have at least a control deficiency, if not a significant deficiency or material weakness. If a compensating control can reduce the risks associated with a lack of segregation of duties, then your client may be able to reduce a material weakness to a significant deficiency or a significant deficiency to a control deficiency. However, as the auditor, you should document your rationale, testing, and evaluation. This is important because regulators or other reviewers of your work may question your decision and will want documentation that supports how the compensating control mitigates a lack of segregation of duties deficiency.

12. Do you have to document your findings with "context," "cause," "effect," etc.?

Answer: Yes. All of the components of a finding discussed on slide 32 are required for reporting any finding, assuming they are applicable. Generally, “cause” and “effect” are applicable to all findings. Also see paragraphs 4.27 – 4.32 and 12.37 – 12.38 of the GAS/A133 Guide for additional guidance on audit finding content. On the [GAOC Web site](#) you can listen to an archived conference call entitled "[Evaluating and Reporting Audit Findings](#)" which discusses how to write an audit finding.

13. Are all noncompliance findings required to be reported by *Government Auditing Standards* as “material noncompliance” requiring modification of the auditor's opinion on compliance? A federal cognizant agency asserts that this is the case.

Answer: The question appears to be mixing two separate issues. Under *Government Auditing Standards*, the auditor reports in the Yellow Book report on compliance and other matters all instances of fraud and illegal acts, as well as material violations of provisions of contracts and grant agreements and abuse. There is no opinion given on compliance. Under Circular A-133, the determination of whether to report noncompliance findings is a separate analysis from determining whether reported findings affect the compliance opinion on each major program. In a single audit, the auditor reports as audit findings, material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. The auditor’s determination of whether such noncompliance is reported as an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the *Compliance Supplement*. The auditor then evaluates all of the findings of noncompliance reported (for each major program) to determine whether the overall opinion on the major program should be modified. You should refer to paragraphs 8.52 – 8.61 of the GAS/A133 Guide for further information on evaluating and reporting noncompliance in a single audit. Flowcharts in chapters 4 and 12 of the Guide also provide useful information on evaluating and reporting findings. Also, [click here](#) to see these flowcharts on the [GAOC Web site](#).

14. You mentioned that a lack of documentation is a common audit quality deficiency throughout your presentation. How will SAS 103, *Audit Documentation*, affect single audits?

Answer: As auditors performing single audits, we use *Government Auditing Standards* when performing our audits. Those standards already include the new concept in SAS 103 of requiring sufficient documentation to allow an experienced auditor with no previous connection to the audit to understand the auditor's significant judgments and conclusions. So, in this regard, SAS 103 should not have a major impact. However, SAS 103 provides significantly more detail and better guidance on the experienced auditor concept and also what documentation should include. We encourage auditors to read and understand SAS 103. SAS 103 contains a provision for “locking down” audit documentation at 60 days from the report release date. To address the various issues related to the 60 day provision in a single audit, the AICPA has formed a task force. That task force will address issues involving SEFA documentation, issuance of single audit reports after the financial statement audit report, our “in relation to” reporting on the SEFA, representation letters, and timing of receipt of documents. Watch the [GAOC Web site](#) for updates.

15. Do you have to include views of responsible officials in Circular A-133 findings?

Answer: Yes. This came about after the 2003 revision to the Yellow Book. Since A-133 audits are done under the Yellow Book, the elements of findings required by the Yellow Book also apply to Circular A-133 findings. This topic is discussed in paragraph 12.38 of the GAS/A133 Guide.

16. Should the Summary of Prior Audit Findings include the status of financial statement material weaknesses, as well as any findings that are specific to a major program? For example, if in the prior year a material weakness was reported in the financial statement audit relating to a situation where the accounts receivable balance was not being reconciled to the subsidiary ledger throughout the year for Medicaid accounts receivable, would this be required to be reported in the Summary of Prior Audit Findings?

Answer: Paragraphs 12.41 – 12.43 of the GAS/A133 Guide provide guidance on how an auditee is to prepare a Summary of Prior Audit Findings. This summary should include follow-up and corrective action for all findings included in the prior audit's schedule of findings and questioned costs relative to federal awards. If there are no matters to report, the auditee does not have to complete this summary.

17. Is there any guidance on how a firm would reissue a single audit report?

Answer: The GAOC has provided guidance to its members on this topic. It is titled, "How to Reissue a Single Audit Report" and can be accessed by [clicking here](#).

18. Please clarify the considerations for selecting samples that cross over multiple major programs. My understanding is that separate samples should be used for all major programs. In addition, multiple samples may need to be selected within a single major program depending on the compliance requirements being tested (i.e., separate samples for allowable costs and Davis Bacon).

Answer: There is no requirement to use separate samples. However, with regard to major program testing you should see paragraph 8.47 of the GAS/A133 Guide which cautions that it may be preferable to use separate samples from each major program. Also, using separate samples for different required material compliance testing within a major program may be a best practice. For example, you may not be able to just select a sample of disbursements to test because a disbursement may not satisfy the requirements of Davis Bacon. You may have to test the vendors used under Davis Bacon. For this example you may have two populations and two samples.

19. What is the best source for guidance in determining whether an agency is a contractor or a subrecipient?

Answer: Paragraphs 11.08-11.14 of the GAS/A133 Guide contain lists of characteristics to you determine subrecipient status versus vendor status and also describe several typical relationships and whether those relationships would be considered subrecipient or vendor relationships.