


AICPA  
Governmental Audit Quality Center  
Member Conference Call

**The Recovery Act:  
A Practitioner's Perspective**

*September 29, 2009*



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**Today's Speakers**

<b>Heather Acker, CPA</b> Partner Baker Tilly Virchow Krause LLP	<b>Kera Badalamenti, CPA</b> Partner Heinfeld, Meech & Co., PC
<b>Mandy Nelson, CPA</b> Partner KPMG LLP	<b>Scott Simpson, CPA</b> Partner Moss Adams LLP

Moderating:  
**Mary Foelster, CPA**  
Director  
AICPA - GAQC



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**What we will cover?**

- A high-level summary of the various Recovery Act guidance issued to date by OMB and GAQC;
- Practitioner's experiences in dealing with Recovery Act audit implications and challenges and how they have been addressing them; and
- Details about practitioner discussions with clients that have yet to receive Recovery Act Funds.



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## American Recovery and Reinvestment Act of 2009 – Guidance Issued to Date



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## Auditor Perspective

- American Recovery and Reinvestment Act of 2009
  - Some June 30, 2009, audits impacted; bigger impact likely on later 2009 year-ends and into 2010 and 2011
  - Accountability and Transparency
    - QCRs built into the OMB guidance – results to be placed on Recovery.gov
    - Single audit reporting to be made available on the Internet
    - Auditees significantly affected by Section 1512 reporting; auditor responsibility going forward?
  - Non-static *Compliance Supplement* and other OMB guidance issued on continual basis
  - Changes to major program determination process
  - Watch GAQC communications and Web site for updates

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## OMB Guidance

- Recovery Act
  - Initial Implementing Guidance at (issued February 18, 2009):  
[http://www.whitehouse.gov/omb/assets/memoranda\\_fy2009/m09-10.pdf](http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-10.pdf)
  - Follow-Up OMB Implementing Guidance at (issued April 3, 2009):  
[http://www.whitehouse.gov/omb/assets/memoranda\\_fy2009/m09-15.pdf](http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-15.pdf)
  - Implementing Guidance for the Reports on Use of Funds Pursuant to the Recovery Act (issued June 22, 2009):  
[http://www.whitehouse.gov/omb/assets/memoranda\\_fy2009/m09-21.pdf](http://www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21.pdf)

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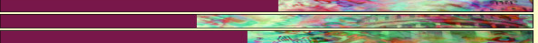
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## OMB Guidance

- Recovery Act
  - Frequently Asked Questions on the American Recovery and Reinvestment Act of 2009:  
[http://www.whitehouse.gov/omb/recovery\\_faqs/](http://www.whitehouse.gov/omb/recovery_faqs/)
  - *Compliance Supplement* and related Addendum issued on August 5, 2009 that can be accessed at:  
[http://www.whitehouse.gov/omb/grants\\_circulars/](http://www.whitehouse.gov/omb/grants_circulars/)
  - GAQC Alert #123  
<http://gaqc.aicpa.org/Resources/Recovery+Act+Resource+Center.htm>



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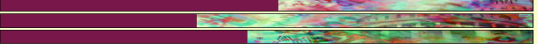
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### Recovery Act *Compliance Supplement* Appendix VII

- Auditors Should Be Alert for Recovery Act Awards
- Impact on CFDA Numbers.
- Cluster Guidance to be Updated Monthly
- Major Program Determination
- Auditors May Have to Use Multiple Sources to Determine Compliance Requirements
- Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (DCF) Need to Identify Recovery Act Expenditures Separately



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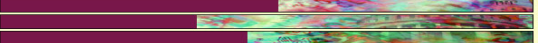
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### Addendum #1 to *Compliance Supplement*

- Issued on August 5, 2009, and effective for June 30, 2009, single audits with Recovery Act expenditures
- Updated Matrix of Compliance Requirements
- Guidance added for certain types of compliance requirements
- New Program Sections Added to Part 4
- Part 5 on Clusters has been revised for effect of Recovery Act Programs
- Internal control guidance added to Part 6
- Child Nutrition Cluster Revised (not Recovery Act related)



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**GAQC Alert #123 – Clarified Major Program Guidance**

- Can a Type A program with one CFDA# for both Recovery Act and non-Recovery Act funds be low risk?
  - While de minimus levels of Recovery Act expenditures in the current year may be a quantitative factor indicating low risk, anticipated large funding increases in subsequent periods would be a strong qualitative factor that would not support low-risk
  - Lack of findings in prior audits may not be relevant due to new Recovery Act compliance requirements



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**GAQC Alert #123 – Clarified Major Program Guidance**

- Can a Type A program with one CFDA# for both Recovery Act and non-Recovery Act funds be low risk?
  - Auditors should consider qualitative factors (e.g., unprecedented levels of transparency and accountability for Recovery Act funds) which would not support a designation of a program as low-risk
  - Auditor must clearly document qualitative and quantitative factors supporting a low-risk decision. Would likely be uncommon.
  - Feds will be checking this using the Federal Audit Clearinghouse
  - Feds public statements indicate almost any amount of Recovery funds should lead to a high-risk determination



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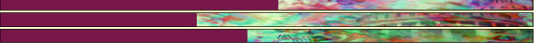
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**GAQC Recovery Act Resource Center**

- New section on GAQC Web site for auditors dedicated to Recovery Act matters
  - <http://gaqc.aicpa.org/Resources/Recovery+Act+Resource+Center.htm>
- Archived GAQC member calls
  - Recovery Act calls
  - Auditee call on preparing for a single audit
- Links to Recovery Act GAQC Alerts
- Links to GAQC Recovery Act tools
  - Nonauthoritative examples to illustrate the impact of the Recovery Act
  - Talking points for auditors to use with clients
- The Resource Center is open to general public, so invite your staff and clients



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## GAQC Resources

- *GAQC Alerts*  
<http://gaqc.aicpa.org/Resources/Archived+GAQC+Update+Newsletters/GAQC+Alerts.htm>
  - #106, Effect of American Recovery and Reinvestment Act of 2009 on Single Audits
  - #111, The Latest on the Recovery Act and Other Single Audit Related Matters
  - #112, OMB Issues 2009 Compliance Supplement Which Includes Additional Recovery Act Guidance
  - #123, Clarifying Major Program Determination Guidance from OMB



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## GAQC Resources

- GAQC Archived Member Call titled, *The Recovery Act and Its Potential Impact on 2009 Single Audits*
  - The purpose of the call was to provide auditors with Recovery Act information for both communicating with clients, as well as understanding the implications for June 30, 2009, single audits and in the future.
  - Led by three federal presenters that included representatives from the Office of Management and Budget and federal Inspectors General offices



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## GAQC Team

- General Inquiries [gaqc@aicpa.org](mailto:gaqc@aicpa.org)
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## Practitioner Realities and Challenges

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## Scott Simpson, Moss Adams LLP

- Regional firm in the western US with over 240 partners in 20 different offices.
- Client Base: Institutions of Higher Education, Not-for-Profit Organizations (Foundations, Research Organizations, etc.), State Government Agencies
- Many of our clients have applied for and have been notified they have been awarded Recovery Act funds. However, except for our state clients, relatively few clients have expended those funds as of 6/30.

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## Issues to Cover

- Major program determination challenges
- Conversations with clients that have not yet received Recovery Act funds but are expected to in the future

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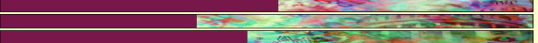
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## Major Program Determination

- Appendix VII of the 2009 *Compliance Supplement* addresses the effect on expenditures of Recovery Act Awards on Major Program Determination
- New CFDA #
  - Fails two-year lookback
- New CFDA # in a cluster
  - Fails two-year lookback



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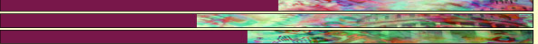
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## Major Program Determination

- Existing CFDA # = higher risk
  - Appendix VII states that when a CFDA number is not new but it includes Recovery Act funds, the auditor should consider the program as higher risk and that the auditor may be able to conclude and document that the risk is other than high. However, as noted in the clarifying guidance issued in GAQC Alert #123, this situation is expected to be extremely rare.



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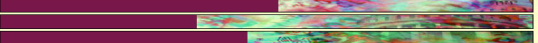
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## Major Program Determination

- How to interpret "higher risk"
  - GAQC Call titled, [The Recovery Act and Its Potential Impact on 2009 Single Audits](#)
  - GAQC Alert #123 relaying OMB position (see earlier slide for details on this GAQC Alert)
  - Discussions with HHS
    - Essentially 1<sup>st</sup> dollar
    - There is no de minimus threshold for this requirement. For Recovery Act funding of even very low amounts, these rules must be applied.\*

\* Be aware that federal agencies will be looking for Recovery Act funds not audited as major. Due to the method of reporting Recovery Act funds on the DCF, federal agencies can easily identify these cases and they will likely follow up.



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## Major Program Determination

- When it comes to Recovery Act funding, quantitative factors (materiality, amount of Recovery Act funding, possibility of a finding in excess of the reporting threshold, etc.) matter less than qualitative factors
- Although some entities may receive very little Recovery Act funding the first year, they will have more of such funding next year.

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## Major Program Determination

- OMB's impetus for requiring the auditor to consider these funds high risk, triggering the identification of more major programs this year, is to ensure the auditor looks at controls and the new Recovery Act compliance requirements this year so any problems are identified and corrected and recipients will have fewer problems in future periods with increased funding.
- The June addendum to the *Compliance Supplement* indicates auditors should consider "capacity" issues as part of the consideration of internal control over compliance.
- Despite a lack of findings in prior audits of the program, the auditor must consider the new compliance requirements that are specific to all Recovery Act awards which would not support a designation of a program as low risk.

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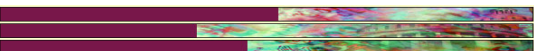
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## Major Program Determination

- The auditor should assess risk for Type B programs (greater than the \$100,000 threshold) with Recovery Act in the same manner as Type A programs
- As part of the normal major program determination process, if the auditor needs high-risk Type Bs and selects a high risk Type B program without Recovery Act funds to audit in lieu of a high risk Type B program with Recovery Act funds, the auditor should clearly document the decision on why they did not select the Type B program with Recovery Act funds

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## Message Points to Clients

- Need process for accepting Recovery Act funds (should be a conscious management decision); organization should be aware of Recovery Act compliance requirements
- Appoint Recovery Act point person or group
- Control procedures should be in place
- Be prepared to report back on spending starting September 30th



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## Mandy Nelson, KPMG LLP

- National firm with over 1,400 partners and professionals auditing 25% of all federal funds audited by external auditors
- Client base includes Federal, State & Local Governments, Higher Education, Research, and Not-for-Profit Organizations (NPOs)
- Many clients have received or will receive Recovery Act funds



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## Issues to Cover

- Many facets included in recent OMB guidance (Appendix VII to the *Compliance Supplement* and related Addendum) that auditors need to be aware of
- SEFA Issues – What's in and out?
- Uncertainty of the future and looking ahead



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### 2009 Compliance Supplement Appendix VII

- Clustering of Recovery Act dollars
- Major program determination
  - Any Recovery Act expenditure makes program higher risk
  - Effective for June 30, 2009 year ends
- Award terms and condition
- SEFA presentation
  - Separate presentation of Recovery Act expenditures



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### Addendum #1 – Part 3

- **Activities Allowed or Unallowed:** Adds a new unallowable activity to ensure Recovery Act monies are not used for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.
- **Davis-Bacon Act:** Includes the Recovery Act and related OMB implementing guidance as a source for requirements.
- **Procurement and Suspension and Debarment:** Adds a new audit objective to determine:
  - Whether an award includes Buy-American
  - Compliance with Buy-American Recovery Act provisions
  - If any waivers have been granted



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### Addendum #1 – Part 3

- **Reporting:** Clarifies that the reporting requirements imposed by Section 1512 of the Recovery Act are not applicable for audit periods with ending dates in June, July and August of 2009.
  - An additional addendum will be issued by September 30, 2009, which will identify objectives and related procedures for Section 1512.
- **Subrecipient Monitoring:** Adds a new audit objective to determine if the subrecipient has communicated to their first-tier subrecipients the requirement to register in the Central Contractor Registration.



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### Addendum #1 – Part 3

- **3 New Special Tests and Provisions:** Adds audit objectives for three new special tests:
  - Separate accountability for Recovery Act funding
  - SEFA and the DCF presentation requirements
  - Requirements for the prime recipient to identify for their subrecipient:
    - Federal awards and CFDA numbers
    - The amount of Recovery Act funds
    - SEFA and DCF presentation requirements

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### Addendum #1 – Part 4

- The agencies that have included new programs:
  - Education
  - Housing and Urban Development
  - Environmental Protection Agency
  - Homeland Security
  - Department of Labor
- HHS did not include any programs

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### Addendum #1 – Part 5

- **Cluster Changes**
  - Identifies cluster changes due to the Recovery Act
  - Clarifies treatment of Federal Pell Grant (FPG) and Federal Work Study (FWS):
    - Disbursements under these programs were made without separate identification of the Recovery Act.
    - All expenditures for FPG and FWS should be reported under the Student Financial Aid cluster.

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## Addendum #1 – Part 6

- Internal Control
  - Auditors are encouraged to promptly inform management of identified control deficiencies related to Recovery Act funding.
  - Entities receiving Recovery Act funds may face a material increase in resources needed to:
    - Properly manage Recovery Act
    - Monitor and account for Federal awards
    - Effectively operate related internal controls
  - Auditors should consider “capacity” issues as part of internal controls considerations.



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## SEFA Preparation

- Appendix VII
- Build America Bonds
- COBRA (17.151)



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## Looking Ahead?

- Complete Single Audit reports (including findings) will be publicly available for years ending on/after September 30, 2009
- Ongoing OMB/GAO discussions
  - Additional work on internal control?
  - Change in submission deadline?



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## OMB Single Audit Pilot

- Voluntary pilot program for states
- Early reporting of Significant Deficiencies and Material Weaknesses
  - Selected programs
  - Six-month deadline
  - For June 30 year-ends
  - Auditing interpretation in the works

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## Going Forward

- Effect on auditees to increase significantly for fiscal year ends after June 30, 2009
- Inquire of client's about Recovery Act expenditures
- 1512 Reporting
- Look for Addendum #2 to the *Compliance Supplement* in October
- Watch for new OMB Implementing and Other Guidance
- Watch GAQC communications for further updates and developments
- OMB Single Audit Pilot and potential effect going forward

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## Kera Badalamenti, Heinfeld, Meech & Co., PC

- Regional Firm with 12 Partners, 60 professional Staff in Arizona and New Mexico
- Client base includes 200 Local Governments, School Districts and NPOs
- 95% of the Firm's clients have received or will receive Recovery Act funds with State Stabilization Funds comprising the largest portion

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### Issues to Cover

- State stabilization challenges
- Answering client's questions about 1512 reporting

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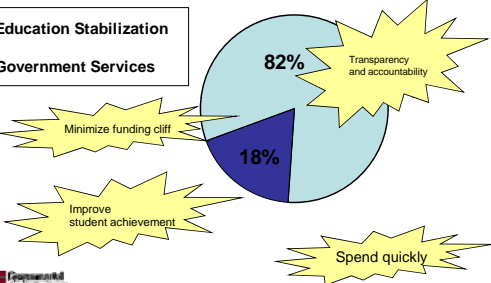
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### State Fiscal Stabilization Fund

Education Stabilization  
 Government Services



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### State Fiscal Stabilization Fund

- Uses
- Prohibitions
- Reporting
- Obstacles

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## State Fiscal Stabilization Fund

- Tips for Success
  - Connect
  - Educate
  - Alert
  - Designate
  - Act
  - Document

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## Section 1512 Reporting

- Who is required to report under Section 1512?
  - Prime recipients who receive Recovery Act funds
  - Prime recipients may delegate certain reporting responsibilities to "first tier" sub-recipients
- What reporting is required?
  - Total amount of funds received; and of that, the amount spent on projects and activities;
  - A list of projects and activities funded by name to include:
    - Description, Completion status, Estimates on jobs created or retained;
  - Details on sub-awards and other payments

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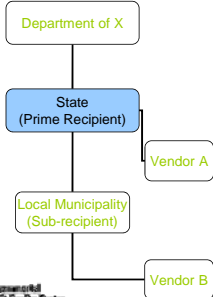
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## Basic Principles and Requirements



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    X[Department of X] --- S[State (Prime Recipient)]
    S --- LM[Local Municipality (Sub-recipient)]
    S --- VA[Vendor A]
    S --- VB[Vendor B]
            
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**Prime Recipient Basic requirements**

- Federal Funding Agency Name
- Award identification
- Recipient D-U-N-S
- Parent D-U-N-S
- Recipient CCR information
- CFDA number, if applicable
- Recipient account number
- Project/grant period
- Award type, date, description, and amount
- Amount of Federal Recovery Act funds expended to projects/activities
- Activity code and description
- Project description and status
- Job creation narrative and number
- Infrastructure expenditures and rationale, if applicable
- Recipient primary place of performance
- Recipient area of benefit
- Recipient officer names and compensation (Top 5)
- Total number and amount of small sub-awards; less than \$25,000

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Heather Acker, Baker Tilly Virchow Krause LLP

- Regional firm of 1,200 employees (approximately 150 of which are dedicated full-time to serving governmental clients)
- Client base includes Local Governments, Counties, School Districts, Colleges and Universities
- Partner-in-charge of various local government audits of clients who have received or will be receiving Recovery Act funding



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Issues to Cover

- Planning is key
  - Scope Issues
  - Timing
  - Talking to Clients



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Planning - Audit Scope Changes

- Entities over \$500,000 for first time
  - Education on Circular A-133 requirements (don't forget the GAQC archived call titled, [Preparing for Your Single Audit: An Auditee Perspective](#))
  - May be less familiar with grants management
  - Depending on information exchanged by pass-through agencies, subrecipients may be unaware of audit requirements
- Increased number of major programs in recurring Circular A-133 audits (Type A and B)



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### Planning - Audit Scope Changes

- New programs with potentially unfamiliar compliance requirements
- Additional requirements of familiar programs:
  - Buy American
  - 1512 Quarterly Reporting
  - Separate tracking of funds
  - Davis Bacon
  - Special Tests and Provisions



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### Planning - Start Early

- Estimate changes in federal expenditures on SEFA early in process to effectively plan
- For clients with many applications and awards in process, identification of start date is important
- Encourage clients to begin preparing SEFA early to avoid delays



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### Planning - Start Early

- Consider more preliminary fieldwork
- Benefits to relaying potential findings early, even informally, to allow for more timely corrective action



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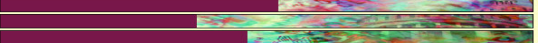
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### Additional Message Points to Clients

- Consider whether control procedures in place over federal expenditures are appropriate, working properly, and designed to prevent unallowable expenditures
- Consider whether additional controls and system requirements will be needed to ensure that Recovery Act funds are able to separately identified and tracked
- If applicable, consider whether new controls needed to meet the stringent reporting requirements back to federal agencies
- If Recovery Act funds will be passed down to subrecipients, that controls are in place to ensure appropriate subrecipient monitoring and also whether any new controls will need to be established related to new subrecipient reporting responsibilities

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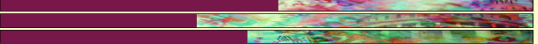
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### Questions ?????



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