When You Think It, Ink It! Best Practices in Single Audit Documentation

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Today's speakers

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What we will cover

Importance of strong documentation
Important areas to get right
How to improve
Other best practices and tips
Terminology and abbreviations

<table>
<thead>
<tr>
<th>Term</th>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>AICPA</td>
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<td>American Institute of CPAs</td>
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<tr>
<td>I/C</td>
<td></td>
<td>Internal Control</td>
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<tr>
<td>CFDA</td>
<td></td>
<td>Catalog of Federal Domestic Assistance</td>
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<tr>
<td>QC</td>
<td></td>
<td>Questioned Cost</td>
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<tr>
<td>OPM</td>
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<td>Office of Management and Budget</td>
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<td>SFFC</td>
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<td>SFIR</td>
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<td>Schedule of Findings and Questioned Costs</td>
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<tr>
<td>GAGAS</td>
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<td>Generally Accepted Government Auditing Standards or Yellow Book</td>
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<td>GASG</td>
<td></td>
<td>AICPA Audit Guide, Government Auditing Standards and Single Audits</td>
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<td>GASB</td>
<td></td>
<td>Government Accounting Standards Board</td>
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<tr>
<td>GAAP</td>
<td></td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GAAS</td>
<td></td>
<td>Yellow Book - Government Auditing Standards</td>
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</table>

Importance of Strong Documentation

Why is strong documentation important?

To meet the requirements of the auditing standards

To help avoid quality problems

• While improvements have been made over the years, peer reviewers and federal agencies indicate that they still see problems in this area
AICPA standards on documentation

Purpose of audit documentation per AU-C section 230, Audit Documentation, is to provide:

• evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor, and
• evidence that the audit was planned and performed in accordance with GAAS and applicable legal and regulatory requirements.

Other AICPA auditing standards also include specific documentation requirements.

Experienced auditor concept

Under AU-C 230, the auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

• the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
• the results of the audit procedures performed, and the audit evidence obtained; and
• significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

2018 Government Auditing Standards requirements

Incorporates by reference the requirements of AU-C section 230

Adds two additional requirements as follows:

6.31 Auditors should document supervisory review, before the report release date, of the evidence that supports the findings and conclusions contained in the audit report.

6.32 Auditors should document any departures from the GAGAS requirements in certain circumstances.
Quality concerns - documentation continues to be a global weakness area

**Key areas of documentation include:**

- Materiality levels and basis for eval.
- Major program determinations.
- Understanding and testing of materiality.
- Compliance testing and support for compliance.
- Overall conclusions.

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**Motto for this session:**

If it was not documented, it was not done!

Make this a focus area!

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Recent federal observations on documentation issues noted in QCRs

- Fraud considerations
- Response to identified risk
- Communications with those charged with governance
- Supervisory review missing
- Actual audit steps not explained
- Outside of the official audit files
- Preparation and review date problems

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Important Areas to Get Right, How to Improve, and Best Practice Tips
Documentation areas to be covered

Planning
• 2019 Compliance Supplement (Supplement) considerations
• D&M compliance requirements
• Major program determination/low-risk auditee status
• Type A program risk assessments
• Type B program risk assessments
• SEFA accuracy and completeness
• Materiality determinations
• Sampling

Performance
• I/C testing
• Compliance testing
• Dual-purpose testing

Evaluation
• Documenting of evaluation and disposition of exceptions
• Tying it all together

Setting the stage
This section will provide examples of actual audit documentation.
In some cases, the example documentation provided is lacking or erroneous.
These examples are noted with an 
• Good examples are noted with a 
Therefore, do not use the lacking/erroneous examples for any other purpose other than to illustrate poor documentation!
Reminder: Documentation considerations around 2019 Supplement correction edition


Notice was sent to auditors and auditees in the FAC database on 10/18/19 with further instructions for audits subject to 2019 Supplement. It said:

- For reports dated on or before October 31, 2019, auditor permitted to use either June or August 2019 editions.
- For reports dated after October 31, 2019, August 2019 edition must be used.

Document which edition you used!

NOTE: If you noted errors in Supplement that were not corrected, you should document:
- Your approach for addressing.
- Any judgment used.
- Consultations with federal agencies.

Supplement correction edition documentation

Consider this scenario:
Auditor performed the majority of a single audit using the 6/2019 edition but did not issue the reports by 10/31/19.
None of the major programs were affected by the 8/2019 edition.
What are the documentation considerations?

Need to prepare documentation supporting that your audit is being performed using the 8/2019 edition.
Since the audit started with the 6/2019 edition, if you have Supplement copies in your documentation, you may want to swap them out. Alternatively, keep the 6/2019 copies but explain that all 6/2019 copies in the audit documentation were verified and did not change.

Not required to make any report wording changes to indicate which version used!

Reminder: 2019 Supplement 6-requirement mandate

OMB required agencies to limit compliance requirements subject to the compliance audit to 6 per program or cluster included in the 2019 Supplement.
- Exception: The R&D cluster is permitted to identify 7.
- Some agencies have chosen less than 6 requirements.
- A. Activities Allowed and Unallowed, and B. Allowable Costs and Cost Principles, are counted as one requirement.
- Relates to the 200+ programs in the Supplement.
- 6-requirement mandate not applicable to programs not in the Supplement; things stay status quo for those programs.

Review of Supplement Part 2 matrix critical.

Does the 6-requirement mandate affect your documentation of D&M requirements?
Example workpaper documenting D&M compliance requirements

Is this workpaper’s documentation sufficient to support why certain requirements subject to audit will not be tested?

Good example workpaper documenting D&M compliance requirements

Make sure you explain why something is not D&M!

Good example documentation supporting why procurement is not D&M

Example Documentation: While the Part 2 Matrix identifies Procurement as being subject to audit for CFDA No. XX.XXX, Client ABC made only one small purchase during the year that is immaterial overall to the program expenditures. Therefore, the procurement type of compliance requirement for CFDA No. XX.XXX is not D&M to Client ABC.
Best practice tip for documenting the major program determination process

Use a checklist to walk you through the steps to help ensure you do not miss anything
- Can be developed internally or purchased through a 3rd party vendor
- Can be used both during audit performance and for quality control purposes

Example workpaper - determination of major programs and low risk auditee status

Is this workpaper's documentation sufficient?

```
<table>
<thead>
<tr>
<th>Federal Grant / Program Title</th>
<th>CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Housing and Urban Development</td>
<td>14.157</td>
<td>$1,613,906</td>
</tr>
<tr>
<td>Section 8 Housing Assistance Payments Program</td>
<td>14.135</td>
<td>118,388</td>
</tr>
<tr>
<td>Total Section 8 Project-Based Cluster</td>
<td>118,388</td>
<td></td>
</tr>
<tr>
<td>Total Expenditures of Federal Awards</td>
<td>1,631,294</td>
<td></td>
</tr>
</tbody>
</table>

Low Risk Auditee - no issues or findings to date two years |
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Issues with previous major program/low risk auditee determination workpaper
- Example fails to show whether the type A program is high or low risk
- Example fails to show if the type B program needed to be evaluated
- Coverage is good with CFDA 14.157 as major
- NOTE: If the type A program is low risk and the type B program is high risk, both programs would need to be audited to meet the required steps and get appropriate coverage!
Issues with previous major program/low-risk auditee determination workpaper

While the workpaper addresses that there were no audit findings in previous two years, it fails to address all low-risk auditee criteria including whether:

- Single audits were filed timely the last two years
- F/S were prepared in accordance with GAAP
- Substantial doubt about going concern

Type A program risk assessment workpaper

CFDA 93.958 Block Grants for Community Mental Health - Low Risk
Support: This program was audited last year and had no issues

Program 93.658 Foster Care - Title IV-E - Not Considered Low Risk
Support: This is a very large program

Issues with previous type A program risk assessment workpaper

Documentation for CFDA 93.958 fails to address whether the auditor considered whether there is an indication of significantly increased risk based on the following criteria for federal program risk:

- Oversight by federal agencies and pass-through entities or an indication in the Compliance Supplement that a federal agency has identified a program as higher risk
- Results of audit follow-up
- Any changes to personnel and systems
Issues with previous type A program risk assessment workpaper:

Documentation for CFDA 93.658 fails to address required risk assessment criteria:

- Has program been audited as major program in at least one of the two most recent audit periods?
- Did the program have any of the following in the most recent audit period?
  - Material weaknesses I/C over compliance
  - Modified opinion on the program
  - Known or likely QC that exceed 5% of total federal awards expended for the program

* Risk factors from previous slide

NOTE: “Very large program” is not a risk factor

The auditor is not able to use judgment to override the low risk type A conclusion based on the inherent risk of a federal program!

Example workpaper - Type B program risk assessment

Conclusion: Per W/P X-8, we need to select 2 high risk type B programs. Based on our risk assessments performed of type B programs, we will test programs 2 and 6 as a major program.

Issues with previous type B risk assessment workpaper

The Uniform Guidance requirement is for all type B programs identified as high-risk to be audited as a major program.

This risk assessment risk assessed all type B programs and identified 4 high risk type B programs.

Because the auditor identified more high-risk type B programs than required, those additional high-risk type B programs would have to be audited as major programs.
Is this workpaper’s documentation sufficient?

Issues with previous SEFA workpaper

The workpaper only shows that SEFA information ties to confirms
There are so many other problems!

Reminder: SEFA accuracy and completeness

Important steps (this is only a partial listing):

• Understand management’s responsibility for SEFA
• Perform client inquiries on how the SEFA is prepared and more
• Determine that the SEFA is derived from records used to prepare the F/S
• Ensure all required elements are present including footnotes
• Obtain sufficient appropriate audit evidence supporting SEFA accuracy and completeness
Reminder: SEFA accuracy and completeness

GAQC has developed SEFA practice aids that include checklist to assist both auditors and auditee.

Auditor Practice Aid available to GAQC members
Auditee Practice Aid open to the public

Documentation of client inquiries relevant to the single audit

Workpaper example:

Discussion with Executive Director and Program Director if there were any issues with federal funding

None noted

Good example documentation of client inquiries

Met with Executive Director and Program Director on April 5, 2019

- Inquired of any change in personnel - none during the period
- Inquired of incremental funding - no incremental funding
- Inquired if any agency or pass-through oversights occurred - one program oversighted - copy of report received see wp X-4
- Reviewed Summary Schedule of Prior Audit Findings - Program Director discussed how corrective action was taken see wp X-2
- Inquired about the risk of fraud related to major programs - Program Director discussed the risk of ineligible participants being served and their process to eliminate risk see wp X-6
- And so much more......
Example workpaper documenting materiality

<table>
<thead>
<tr>
<th>Program</th>
<th>Benchmark Amount</th>
<th>Percent</th>
<th>Program Materiality</th>
<th>Amount Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>YICCA Cluster</td>
<td>$3,220,464</td>
<td>$</td>
<td>$167,473</td>
<td>$164,598</td>
</tr>
<tr>
<td>YAAF</td>
<td>$654,000</td>
<td>$</td>
<td>$42,720</td>
<td>$42,588</td>
</tr>
</tbody>
</table>

Issues with previous materiality workpaper

Only includes one materiality number
Materiality should be determined separately for each major program

Good example of documenting materiality levels

Each major program has a clearly identified materiality level
Reminder: Materiality levels

Materiality considerations in a single audit are different than a single audit as there are varying levels:

- F/S audit - in relation to the F/S as a whole
- Compliance opinion - in relation to each major program
- Reporting a compliance finding for a major program - in relation to a type of compliance requirement (i.e., known or likely QC that are greater than $25,000)

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Sampling workpaper documentation

“To test eligibility, we selected 40 participants from a listing provided by management.”

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Issues with previous sampling planning workpaper

Documentation of sample size inputs needed for controls:
- Inherent risk
- Significance of control

Documentation of sample size input for compliance
- Degree of assurance needed

Sampling tables used and number in population
Indicate if performing a dual-purpose test

Documentation of population completeness considerations
Sampling method used
Example documentation for sample size inputs - controls

The organization has had a single audit for the past five years. This major program has been in existence for the past five years, and has been tested for the past five years, with no reported findings in any of those years.

There has been no program turnover. Eligible participants in the program must be over 65 years of age. There are over 700 participants in the program. For eligibility, documentation of age is maintained in participant files and a signoff occurs by the supervisor before the application is approved.

We have concluded that the inherent risk of the eligibility requirement is low due to the simple eligibility determination, and that the significance of the control is very significant. As the population is over 250, we have determined a sample size of 40 is appropriate for internal control over compliance testing using the minimum sample size tables from the AICPA GAS-SA Guide. We will haphazardly select 40 participants for testing.

I/C Over Compliance Table from GAS-SA Guide

<table>
<thead>
<tr>
<th>Test of Controls Sampling Table - Population: 250 or Greater</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Significance of Control</strong></td>
<td><strong>Inherent Risk of Compliance Requirement</strong></td>
</tr>
<tr>
<td>Very significant</td>
<td>Higher inherent risk</td>
</tr>
<tr>
<td>Very significant</td>
<td>Limited inherent risk</td>
</tr>
<tr>
<td>Moderately significant</td>
<td>Higher inherent risk</td>
</tr>
<tr>
<td>Moderately significant</td>
<td>Limited inherent risk</td>
</tr>
</tbody>
</table>

Example documentation for sample size inputs - compliance

We are performing a dual-purpose test of internal controls and compliance over eligibility. We have determined that our risk of material noncompliance is low based on procedures performed (see risk assessment workpaper at X-7). Our degree of assurance needed is low. Therefore based on a population over 250, we have determined that a sample size of 25 for compliance is appropriate based on the AICPA GAS-SA Guide tables. However, because we are performing a dual-purpose test, we will use the higher sample size and test 40 for both controls and compliance.
Example documentation for sample size inputs - population

We obtained a listing of eligible participants that received benefits during the year from management. We imported the listing into excel, and footed the listing, noting a total of $3,259,876 of benefits on the listing, and 786 participants. We reconciled the $3,259,876 to the listing of expenses for the program on workpaper X-15, noting the amount is in agreement for benefits paid to participants.

Reminder: Typical sampling documentation

- Test objective
- Control or compliance requirement
- Definition of a deviation/exception
- Description of the population and sampling unit
- Desired confidence or assurance level, expected deviations
- Importance/significance of attribute being tested
- Sample size chosen
- Sample selection method
- Selected sample items with clear documentation supporting control and compliance testing

Sample planning - in conclusion.....

- Many decisions related to sampling inputs need to be documented
- One of the most common problems found quality reviews is insufficient documentation of the sufficiency of the sample and/or how it was selected
- Recommend use of standard form/checklist to document required inputs and basis for inputs used
Other planning documentation considerations

Fraud risk assessment

• Specifically assess risk of material noncompliance with a major program’s compliance requirements occurring due to fraud

• Chapter 6 of the GAS-SA Guide provides guidance on how to adapt AU-C section 240, Consideration of Fraud in a Financial Statement Audit

• Fraud inquiries of program personnel and others related to major programs

Independence documentation related to nonaudit services - SKE, threats, etc.

Control testing: examples of documentation problems

• Insufficient evidence that the auditor tested controls around each major program’s D&M compliance requirements

• Failure to document understanding of controls for each major program’s D&M compliance requirements

• No evidence that the firm tested controls over compliance at all

• Combined I/C assessments for all major programs

• Auditor could orally explain an understanding of I/C but did not document it

INDEPENDENCE DOCUMENTATION CHANGE COMING WITH 2018 YELLOW BOOK! PAY ATTENTION!!
Control testing: examples of documentation problems

• Used a generic questionnaire that was not tailored to the client  
• Relyed heavily on audit programs without understanding the steps they were signing off on  
• “Power-ticked” generic audit programs, signing off on procedures where there was no indication work was performed

I/C Responsibility Under the Uniform Guidance

Auditors must:
Perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.  
Plan testing of I/C over the relevant compliance requirements for each major program  
Perform testing of I/C as planned  
Report on I/C over compliance

I/C Over Compliance

Testing compliance gives indirect evidence on controls, but cannot serve as the basis for assessing controls as operating effectively  
2-step testing process  
• Controls are designed effectively and placed into operation  
• Key controls are operating effectively (low control risk)  
Important to identify and document the key controls to be tested
I/C Documentation Tips

• If using a checklist, highlight key controls being tested and add commentary on specifics
• If using a client narrative, ensure that key controls tested match narrative from client
• Follow up with client when controls are unclear!
• If control not identified, finding reported and compliance sample impacted

Reminder: New Part 6 of 2019 Supplement

2019 update includes:
• Summary of the requirements for I/Cs
• Background discussion on internal control concepts
• Illustrative examples of controls
  • Appendix 1 - Entity-wide controls over compliance
  • Appendix 2 - Control activities specific to individual compliance requirements

May introduce opportunities for documentation efficiencies.

Upcoming GAQC Web event

GAQC Web event, Using Part 6 of the New Compliance Supplement on Internal Control, to be held on December 11, 2019, from 1:00 PM - 3:00 PM

Learn more about:
• The new Part 6
• I/C over compliance
• Related documentation

Register now!
https://www.aicpastore.com/AST/Main/CPA2BIZ_Primary/PRDOVR~PC-WCFI05044G/PC-WCFI05044G.jsp
Compliance testing: examples of documentation problems

- Insufficient evidence that the auditor tested each major program's D&M compliance requirements
- Insufficient documentation of the sufficiency of the sample and/or how it was selected
- No evidence that the firm tested compliance at all
- Performed F/S audit procedures (e.g., traced invoices to general ledger) in lieu of compliance audit procedures

Excerpt from compliance testing workpaper

What do you think about this documentation?

<table>
<thead>
<tr>
<th>GRANT</th>
<th>INDIVIDUAL NAME</th>
<th>DATE ENTERED PROGRAM</th>
<th>DATE EXITED PROGRAM</th>
<th>Individual Determined to be eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Grant</td>
<td>John Doe</td>
<td>1/12/2019</td>
<td>5/30/2019</td>
<td>Y</td>
</tr>
</tbody>
</table>

Good example - excerpt from compliance testing workpaper
Sampling workpaper example from recent federal QCR

Reminder: Compliance testing - be specific!

We verified matching requirement was met, was from an allowable source, and the valuation of in-kind services provided was proper.

We received detail of match expenses incurred, noting a total of $357,980 of match. This represents 17% of grant expenses, so the match of 15% has been met. We also noted the match sources were from private donations and foundation grants, which are allowable sources. Additionally, we noted the valuation of legal services provided at $400 per hour was appropriate based on donation forms completed by the attorney. See testing of match expenses below.

Dual-purpose testing considerations

- Design your testing grid to specify what specific controls are being tested and what specific compliance requirements are being tested
- Ensure there are separate steps for I/C testing and compliance testing
- GAQC has practice aid to help in the design (see next slides)
Example workpaper for dual-purpose testing

Assume all 40 items tested had no exceptions. Is the conclusion on this workpaper adequate?
Issues with previous dual-purpose testing workpaper

There should be separate conclusions for each test done somewhere in the documentation

- Conclusion on the results of I/C testing
- Conclusion on the results of compliance testing

Example workpaper for risk assessments and testing

Documentation requirements relating to known and likely QC

For nonmonetary compliance attributes (e.g., whether a report is submitted on a timely basis), the auditor should document noted exceptions and consider the guidance contained in the UG to determine if the finding should be included in the SFQC.

For monetary attributes, the auditor should also document noted exceptions (and any related QC), and if the known or likely questioned costs exceeds $25,000, the auditor must report the audit finding.
Known and Likely Questioned Costs

Among the required audit findings required to be reported in a single audit are:

- Known QC when known or likely QC are greater than $25,000 for a major program
- Known QC greater than $25,000 for a federal program not audited as a major program

Example workpaper for evaluation and disposition of compliance exceptions

Is this workpaper’s documentation sufficient?

Fact not on this workpaper is that major program materiality is $47,000

Issues with previous workpaper for evaluation and disposition of compliance exceptions

Testing resulted in an exception with a known QC of $22,050 that is left hanging

Documentation should identify the exception and what was done to determine whether it should be reported as a finding

To make that determination, the likely QC needs to be determined and that calculation does not appear

If known and likely QC would be greater than $25,000 (which in this case it would appear to be), the workpaper should conclude that it will be reported as a finding

Conclusions also need to be documented regarding whether the finding is material to the program overall
Example workpaper for evaluation and disposition of I/C exceptions

We tested 60 payroll transactions and all had supervisory approval.
We tested 40 cash disbursements and supervisory approval was missing from one transaction.
Our conclusion for I/C over cash disbursements is: Low control risk.

Issues with previous workpaper on evaluation and disposition of I/C exceptions

Workpaper does not explain rationale for how the auditor got to low control risk
If you have an exception (which in this case here), you have a deficiency that needs to be evaluated and that evaluation should be documented
  • For example, is it a significant deficiency?
Other considerations:
  • Do you need to test more?
  • Should you inquire about the timeframe? The personnel?

Tying it all together - the final audit product

The SEFA is the backbone of major program determination and often changes during the course of an audit; be sure to check:
  • Is your A/B threshold correct?
  • Has anything changed that would affect your major program determination?
Does the audit documentation tie together with the audit reports and DCF?
  • Make sure any last-minute changes are addressed in documentation, reports, and the DCF
Final reminder: Missing or lacking documentation

Lack of documentation can mean that:

- All considerations and steps were not completed and the conclusion on the workpaper is **WRONG**
- All considerations and steps were not shown on the workpaper; however, the auditor did all the required work but failed to document that work
- The conclusion is correct; however another auditor is not able to come to the same conclusion because of missing information

If documentation is missing how can you have supervisory review?
If documentation is missing how can a regulator or peer reviewer come to the same conclusion?

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Take a look at this…

AICPA has a documentation toolkit web page
Includes:
- Archived webcast
- Templates
- Frequently Asked Questions
- And more!
Also check out the other GAQC practice aids mentioned in this presentation!

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Key Takeaways

What do you think are the most important things participants can do to improve single audit documentation?
How do I get my CPE certificate?

Access your CPE certificate by clicking the orange “CPE” icon

- If at the end of this presentation you are eligible for but unable to print your CPE certificate, please log back into this webcast in 24 hours and click the orange “Get CPE” button. Your certificate will still be available.
- If you need assistance with locating your certificate, please contact the AICPA Service Center at 888.777.7077 or service@aicpa.org.

Thank you