Engagement Alternatives to Single Audits Relevant to Pandemic Funding

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As a result of a plethora of federal funding, from the CARES Act to the Consolidated Appropriations Act to ARPA, many entities received federal funding for the first time. These entities include Indian tribes, institutions of higher education, nonprofits, and state and local governments, many of which have never been subject to a single audit.[1] In addition, Uniform Guidance requirements have been extended by several federal agencies to for-profit recipients of the pandemic funding. As a result, tens of thousands of new single audits or similar engagements are now required for entities that have never been subject to these types of audits. To ease the burden on these entities and their auditors, the federal agencies are, in some cases, permitting alternative engagements for qualifying recipients as an alternative to a single audit (for example, Financial Audits under *Government Auditing Standards* [referred to as GAGAS or the Yellow Book] or Compliance Attestation Examinations).

Since many of these entities have never been subject to the Uniform Guidance audit requirements, many of their auditors also have limited or no experience with these type engagements. While helpful, the alternative engagement types also are not as common as engagements performed in accordance with the Uniform Guidance. These engagements will be subject to greater scrutiny as the federal agencies are heavily relying on these engagements as part of their oversight responsibilities.

The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution (PRF), and Shuttered Venue Operators Grants (SVOG) programs all have alternative engagement options. All these options have specific requirements and are not available to all entities. While the

[1] More technically speaking, the audit requirements in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards* (Uniform Guidance) often referred to as single audits.

alternatives for CSLFRF impact small governments, the alternatives for PRF and SVOG predominantly impact for-profit recipients.

<u>CSLFRF (Assistance Listing Number – 21.027)</u>

"The purpose of the Coronavirus State and Local Fiscal Recovery Funds ("CSLFRF") is to provide direct payments to states (defined to include the District of Columbia), US territories (defined to include Puerto Rico, US Virgin Islands, Guam, Northern Mariana Islands, and American Samoa), tribal governments, metropolitan cities, counties, and (through states) non-entitlement units of local government (NEU) (collectively the "eligible entities") to:

1. Respond to the public health emergency, COVID-19 or its negative economic impacts, including providing assistance to households, small businesses, nonprofits, and impacted industries, such as tourism, travel, and hospitality;
2. Respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of eligible employers that have eligible workers who are performing essential work, or by providing grants to eligible entities who perform essential work;
3. Provide government services, to the extent COVID-19 caused a reduction in revenues collected in the most recent full fiscal year of the state, territory, tribal government, metropolitan city, county, or non-entitlement units of local government;
4. Make necessary investments in water, sewer, or broadband infrastructure."[2]

The CSLFRF program totals $350 billion, broken up between states ($195b), U.S. Territories ($4.5b), tribal governments ($20b), metropolitan cities ($46b), counties ($65b), and non-entitlement units ($20b). What made this program unique is a significant amount of the funding that went to counties and cities is considered direct funding from Treasury because the recipients were considered non-entitlement units of local governments (NEUs). Although NEUs received their funding through a state (based on population data), under CSLFRF, the state was not considered a pass-through entity for NEU distributions and the NEUs are not deemed to be subrecipients. However, other distributions to local governments, not-for-profits, and other non-federal entities from states of CSLFRF funding unrelated to NEU distributions still may be considered distributions to subrecipients or beneficiaries.

[2] https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

Key Dates:

- May 17, 2021: Interim Final Rule Issued
- August 31, 2021: Deadline for counties to submit first Interim Report to U.S. Treasury
- January 6, 2022: CSLFRF Final Rule Issued
- January 31, 2022: Deadline for counties to submit first Quarterly Project and Expenditure Report
- April 1, 2022: CSLFRF Final Rule Effective
- December 31, 2024: Funds must be incurred and obligated
- December 31, 2026: Funds must be expended to cover obligations and all work must be completed

When the 2021 Compliance Supplement addendum was issued, it was based on a CSLFRF Interim Final Rule. In the 2022 Compliance Supplement, significant modifications were made to accommodate the changes made by Treasury in the issuance of a Final Rule.

One of the most significant changes introduced with the Final Rule was the new option of a standard allowance for revenue loss of $10 million. This allows recipients to select between a standard amount of revenue loss or a full revenue loss calculation to determine the amount of funds "expended." Many entities received amounts less than the standard allowance, making this a great option to reduce complexity and burden of performing a full calculation.

The funding was not permitted to be used to fund pensions or be used for rainy day funds. The funding must be obligated by December 2024 and fully spent by 2026, which is indicative of the longer plan items (like capital expenditures and broadband) that were included in the permitted uses.

CSLFRF Alternative Compliance Examination Engagements

Treasury announced the alternative compliance examination in a Technical Update to the CSLFRF program section in the 2021 Office of Management and Budget (OMB) *Compliance Supplement* (Supplement) and in a *Federal Register* Guidance notice. Instead of a single audit, certain eligible recipients could instead engage a practitioner to perform a compliance examination engagement of the CSLFRF program under the Statements on Standards for Attestation Engagements (SSAEs) (AT-C 315, *Compliance Attestation*), and the Yellow Book.

Examinations do result in an opinion on compliance similar to a Single Audit, but the alternative compliance examination developed by Treasury is more narrowly scoped than a full single audit. To qualify for the alternative engagement, entities needed to have either received the funds directly from the Treasury or received (through the states) the funds as a NEU. In addition, the amount received must be below the $10 million revenue loss standard allowance. Finally, other Federal expenditures (not including their CSLFRF award funds) must be less than $750,000 during the recipient's fiscal year. Treasury's goal of offering this option was to alleviate burden for certain recipients that otherwise would have been required to have a single audit due to the receipt of CSLFRF funding.

In lieu of the multiple compliance requirements to be tested in a full single audit of the CSLFRF program, the practitioner is only required to evaluate whether CSLFRF funding was used by recipients for ineligible purposes as further described in the Supplement. In addition, the practitioner should consider whether the recipients complied with 2 CFR 200.404(e) regarding reasonable costs, and, as such, are required to not deviate from their established practices and policies regarding the incurrence of costs. Further, unlike in a single audit, the compliance examination does not require a financial statement audit. Finally, neither the Treasury requirements for the alternative compliance examination engagement nor *Government Auditing Standards* require an opinion on internal control or testing of controls for operating effectiveness. However, the requirements relevant to internal control in the AICPA Attestation Standards do apply. Specifically, paragraph .15 of AT-C 315 requires that the practitioner should obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements. In planning the examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance, and to design appropriate tests of compliance.

If an eligible client selects this option, the report is due the earlier of 30 calendar days after receipt of the auditor's report(s) or nine months after the end of the audit period. The Department of Treasury has provided guidance, SLFRF Alternative Compliance Examination Engagement Report User Guide, which includes instructions on how to submit these engagements for 2021 year-end audits. 2022 year-end audits are to be submitted to the Federal Audit Clearinghouse. Due to the timeline of spending of CSLFRF funding, we expect these engagements will continue for several years.

The AICPA's Governmental Audit Quality Center (GAQC) has drawn attention to the fact that these engagements do add risk as some practitioners may not be familiar with the AICPA and GAGAS requirements for an examination attestation engagement, and many of these recipients are very small and may not be familiar with the requirements associated with federal funding.

The GAQC has several resources that practitioners should reference, including a set of illustrative reports and a Comprehensive GAQC Practice Aid.

PRF (Assistance Listing Number – 93.498)

"The PRF and ARP Rural Distribution are administered by the Health Resources and Services Administration (HRSA) and support eligible healthcare providers in the battle against the COVID-19 pandemic. PRF provides relief funds to eligible providers of health care services and support for health care-related expenses or lost revenues attributable to coronavirus."[3] This program, which has come in multiple phases, has been provided to a mix of for-profit and non-federal entities (governments and nonprofit organizations). Examples of the types of entities that received PRF funding include hospitals, physician groups, assisted living facilities, hospice providers, ambulatory health care facilities, as well as eye and vision services providers. Nonprofit and governmental recipients are subject to Uniform Guidance requirements.

PRF Audit Options for For-Profit Recipients

For-profit entities that expend $750,000 or more in HHS awards in a fiscal year are subject to the HHS for-profit audit requirements. Because the PRF program was distributed to thousands of for-profit entities, many became subject to the for-profit audit requirement for the first time. The amount expended for the PRF program includes both expenditures and lost revenues. The most common HHS programs that are subject to the HHS for-profit audit requirements include:

- 93.498, Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
- 93.461, HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund
- 93.697, COVID-19 Testing and Mitigation for Rural Health Clinics.

As noted earlier, the for-profit audit requirement only relates to HHS awards. Thus, funding expended by a for-profit entity from other non-HHS federal sources (e.g., Coronavirus Relief Fund awards from a state pass-through entity) should not be included in either the threshold calculation or the scope of the HHS audit. HHS also has explicitly scoped out the Medicare program.

Although for-profit entities have the option of performing a single or program-specific audit, HHS has allowed an alternative for for-profit entities, which is a financial audit of all HHS awards in accordance with GAGAS (referred to as the financial audit option).

PRF GAGAS Financial Audit

When selecting the financial audit option, the entity prepares a schedule of a specific element(s) of a financial statement (hereinafter referred to as the schedule), that reports

[3] https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

revenues and includes all HHS awards (not just PRF). The basis of accounting of the schedule may be either U.S. generally accepted accounting principles (U.S. GAAP) or a special purpose framework (e.g., cash or tax basis, not regulatory or a contractual basis of accounting).

Depending on the HHS programs being audited, the determination of when and what amounts get reported on the schedule will differ. The PRF amounts to be included on the schedule align to the PRF reporting that is required to be submitted in the HRSA PRF Reporting Portal. The table below describes the deadline to use PRF funds for each period, the timing of the reporting in the HRSA PRF Reporting Portal, and when the amounts should be reported in the schedule.

This chart is from the 2022 Compliance Supplement[4]:

	Payment Received Period (Payments Exceeding $10,000 in Aggregate Received)	Period of Availability	PRF Portal Reporting Time Period	Fiscal Year Ends (FYEs) to include each PRF Period on the Schedule of Expenditures for Federal Awards (SEFA) Reporting
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to June 30, 2021	July 1, 2021 to September 30, 2021	Fiscal Year End (FYEs) of June 30, 2021 through June 29, 2022
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to December 31, 2021	January 1, 2022 to March 31, 2022	FYEs of December 31, 2021 through FYEs December 30, 2022.
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2022	July 1, 2022 to September 30, 2022	FYEs of June 30, 2022 through June 29, 2023
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to December 31, 2022	January 1, 2023 to March 31, 2023	FYEs of December 31, 2022 through FYEs June 29, 2023.
Period 5	January 1, 2022 to June 30, 2022	January 1, 2020 to June 30, 2023	July 1, 2023 to September 30, 2023	FYEs of June 30, 2023, guidance will be included in 2023 Compliance Supplement

The HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund provide claims reimbursement for testing uninsured individuals for COVID-19, treating uninsured individuals with a COVID-19 diagnosis, and administering COVID-19 vaccines to uninsured and underinsured individuals. As a result, these are deemed to be fee-for-service awards and the amounts

[4] https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

included on the schedule relate to the revenue recognized in the financial statements during the period under audit.

When performing the financial audit option, an audit of the entity's complete set of financial statements is not required. If an audit of a complete set of financial statements is performed for other reasons, the audit of the complete set of financials would not need to be conducted in accordance with GAGAS.

To perform the audit of the schedule, the auditor would follow AU-C 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, which would provide an opinion on the schedule. In addition, in accordance with GAGAS, the auditor would issue a report on internal control over financial reporting and on compliance and other matters (commonly referred to as a Yellow Book report). Neither HHS regulations nor GAGAS require an opinion on internal control. However, it is important to note that the auditor still would need to identify relevant controls related to the preparation of the schedule and understand whether those controls have been implemented. While GAGAS does not have additional requirements for evaluating internal control, it does establish additional reporting requirements (in the Yellow Book report). Additionally, the auditor should consider noncompliance with laws and regulations that could result in material misstatements of the schedule.

When performing an audit in accordance with GAGAS, auditors need to pay close attention to the different requirements regarding Independence (in particular, as it relates to nonattest services, including preparation of financial statements), CPE, reporting (Yellow Book report), and compliance with laws, regulations, contracts and grant agreements (beyond what is required by AU-C 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*).

The GAQC has several resources that provide guidance when performing this type of engagement that are open to the public including the following:

- *HHS Audit Requirements for For-Profit Entities with Awards from the Provider Relief Fund Program and Other HHS Programs*, a practice aid that provides frequently asked questions (FAQs) and illustrative schedules, notes, and auditors' reports.
- *Governmental Audits of Single Financial Statements or Elements*, an article, which covers some of the requirements when reporting on the schedule for those who may not be familiar with performing an AU-C 805 audit.

Reports are due the earlier of 30 calendar days after receipt of the auditor's report(s) or nine months after the end of the audit period. They are submitted to HHS. As a single audit is not required, no data collection form is required.

SVOG (Assistance Listing Number – 59.075)

Shuttered Venue Operators Grants (SVOG) "provides grant awards of up to $10 million to support the ongoing operations of eligible live venue operators or promoters, theatrical producers, live performing arts organization operators, nonprofit museum operators, motion picture theater operators (including owners), and talent representatives who have experienced significant revenue losses because of the COVID-19 pandemic."[5] This is another program that went to both non-federal entities (nonprofits and governments), as well as for-profit entities. While non-federal entities will continue to be subject to Uniform Guidance requirements and auditors will use the OMB *Compliance Supplement*, for-profit entities should refer to the guidance provided by the Small Business Administration (SBA), which is located on the SBA's website (Audit Attestation Requirement for For-Profit SVOG Recipients) which provides several alternatives for audit.

For-profit entities that recognized $750,000 or more in revenue from SVOG awards during the entity's fiscal year can choose between a single or program-specific audit in accordance with the Uniform Guidance, an audit of the entity's financial statements in accordance with GAAS, or a compliance examination engagement in accordance with AT-C 315 and GAGAS. For those entities that already prepare financial statements and have an annual audit of their financial statements, this may be the easiest option to select. For those that do not have a financial statement audit (or don't prepare financial statements), a compliance examination may be the easier of the remaining options. When performing a compliance examination engagement, the practitioner would opine directly on compliance (directed at the compliance requirements as described in Section V., Compliance Examination Engagement Option of the Audit Attestation Requirement for For-Profit SVOG Recipients), and a financial statement audit would not be required. The practitioner is required to obtain an understanding of relevant portions of internal controls; however, the requirement to test the operating effectiveness of internal controls is not required.

Similar to PRF, many SVOG for-profit recipients may have never been audited before and may have only prepared a tax return. In addition, some practitioners will not be familiar with the AICPA and GAGAS requirements for a compliance examination attestation engagement.

The SBA has Post-application guidance and FAQs (FAQ regarding Shuttered Venue Operators Grant (SVOG) and Post Award FAQ: Answers to Common Questions from SVOG Awardees) that can be helpful. Additionally, the SBA has released tutorials related to the audit threshold triggers for for-profit entities (SVOG Audit Requirements Threshold

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[5] https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

for For-Profits: Entities using Cash Basis Accounting and Entities using Accrual Basis Accounting). The AICPA issued TQA Section 5270.01, *Recipient Accounting for Shuttered Venue Operators Grants and Restaurant Revitalization Fund Grants Received Under the Small Business Administration COVID-19 Relief Programs* for assistance regarding the accounting and recognition for entities that have received SVOG funding. The GAQC has released illustrative reports for the for-profit compliance examination engagement option. On February 9, 2023 (1:00-3:00 pm ET), the GAQC also will be holding an, open to the public, 2-hour Web event that will focus primarily on the SVOG for-profit audit requirements. Access the public registration page. CPEA members that also are GAQC members should refer to the registration information for this event sent directly by the GAQC to access the GAQC member price or the live no-CPE option. A no-CPE archive of the event will be posted to the GAQC archived Web event page shortly after the live event occurs and will be open to all.

Conclusion

These alternative engagements are new for many entities. Practitioners also may be new to the above-described engagements and will have a steep learning curve. Adding to the risk, because the alternative engagements are subject to GAGAS, they will fall within the must-select population of engagements and have a high likelihood of being selected for peer review. There also will be significant federal scrutiny. Ensuring that clients understand their options and that practitioners are performing the engagement in compliance with the various standards is important.