

FEDERAL FUNDING TERMS DEMYSTIFIED

YELLOW BOOK

It wasn't that long ago that standards were printed, bound and available on each accountant's bookshelf. In order to make it easier to know which book to grab when researching audit standards or policies written by the U.S. Governmental Accountability Office (GAO), each book was color coded. Although these books are all available online now, the GAO kept the well-known color coding system and these reference guides are now commonly referred to by the color of the "binding." The most commonly used books related to the GAO's role as an audit institution are the Yellow and Green Books.

The publication of *Government Auditing Standards* is commonly referred to as the Yellow Book. Per the GAO, the Yellow Book is "used by auditors of government entities, entities that receive government awards and other audit organizations performing Yellow Book audits. It outlines the requirements for audit reports, professional qualifications for auditors and audit organization quality control. Auditors of federal, state and local government programs use these standards to perform their audits and produce their reports." The Yellow Book was updated in 2018, and those updates are effective for financial statement audit, attestation engagements and reviews of financial statements for periods ended on or after June 30, 2020 or performance audits that began on or after July 1, 2019.

When a CPA states that the audit will be performed under the Yellow Book standards, it means that the audit will be conducted under both Generally Accepted Auditing Standards (GAAS) and also Generally Accepted Governmental Auditing Standards (GAGAS). The Yellow Book is meant to enhance the accountability for use of government funds by any entity. Therefore, any type of company (public/private, not-for-profit, for-profit, governmental, etc.) in any industry could be subject to the Yellow Book requirements if the funding agency either requests the audit, or if local, state or federal regulations require the audit based on the level of funding spent (or received) by the entity.

The standard independent audit of financial statements is expanded from an audit under GAAS (or the standards of the Public Company Accounting Oversight Board (PCAOB) if the entity is a public company subject to SEC regulations) to include a report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts and grant agreement that have a material effect on the financial statements (Yellow Book Report). The auditor will focus time on ensuring that the entity has complied with material factors related to the public funding and will be considering whether any internal control deficiencies may result in waste or abuse related to public funds.

To determine if the funds that the entity received under the CARES Act or another relief fund will require an engagement utilizing the standards in the Yellow Book requires an understanding of the terms and conditions in the granting/contract documents and may require consultation with the funding agency directly.