An Overview of the Yellow Book

Emily Nesbitt: [00:00:00] Hey everyone, and welcome to LumiQ. My name is Emily Nesbitt, CPA, and your host for today's episode. Joining me today is Alex Buchholz, who is a partner at PKF O'Connor Davies, LLP. Alex, thank you so much for joining me today.

Alexander K. Buchholz: Happy to be here. Very happy to be here.

Emily Nesbitt: So today's episode, Alex and I are chatting all about the yellow book or the generally accepted government auditing standards. So we'll be providing an overview of the Yellow Book as a whole, we'll explain what it is, what's included and when it is applicable. We'll then do a deeper dive into the independence requirements and go through the conceptual framework in identifying and evaluating threats to an auditor's independence. We'll also explain the specific CPE requirements for auditors engaged in non-for-profit audits and who are required to meet the yellow book CPE requirements. And we'll wrap up by covering the concept of waste and [00:01:00] abuse. So we have lots to get to today, Alex. But before we get started, I'd love if you could introduce yourself to our audience.

Alexander K. Buchholz: Sure thing, absolutely. So, very happy to be here, my name is Alex Buchholz, partner with the firm of PKF O'Connor Davies and I specialize in a lot of audits of not-for-profit and healthcare as well. I've been doing this for, oh, almost close to 20 years. I've been doing a lot of audits, I also teach as an adjunct professor here in New York, in the city University of New York. Also serve on a number of different committees and boards, and also do serve as a member of the New York State Board of Public Accountancy. So obviously you have to give that kind of disclaimer that anything that I do talk about today is my own opinion doesn't represent the opinion of my firm or the opinion of the New York State Board of Accountancy, so I just have to give that kind of disclaimer before we get going.

Emily Nesbitt: Awesome well, we're very happy to have you, Alex and yeah, thank you again for joining us. So let's hop right in. We're gonna start with an overview of the Yellow book. So Alex, just start [00:02:00] off by telling us what is the Yellow book?

Alexander K. Buchholz: So the Yellow book is something that really is published by the United States Government Accountability Office. And it's known as generally accepted governmental auditing standards. And really these are standards that are applicable for particular entities that are receiving federal assistance that may or may not meet the requirements for a single audit. So single audit, as some of you may know, is we get federal monies, we expend federal monies that are greater than $750,000. We need to get a full-blown single audit.

Some of you may remember that as an A 133 from many years ago, it's now a single audit. But sometimes when you don't get that level of $750,000, there are certain parts of federal contract requirements or statutory state requirements that may ask you to do this Yellow Book audit. [00:03:00] So it really is a special, I would say, carve out of what we do than regular audits. It could be a not-for-profit, that just is receiving federal money from the government. So, again, we have a not-for-profit that's received some money, it's less than $750,000. Maybe they'll have to get a government a yellow book audit. So it really depends on the funding source, so we always tell clients, ask the government that gave you the money, look at the contract cuz sometimes the contracts will tell you what to do as well.

Emily Nesbitt: Okay, so the requirement for this audit actually comes from the funding source itself.

Alexander K. Buchholz: It would come from the funding source as well as different published authoritative guidances that are out there as well. But again, whenever there's, lack of clarity, we always tell our clients, go to your funding source, ask them what do they want specifically.

Emily Nesbitt: So the amount of 750,000 that you were referencing there is that amount of [00:04:00] funding, does it have to be met in order for these organizations to be subject to a Yellow Book audit?

Alexander K. Buchholz: So if you get above 750 and Expend 750, you have to do a single audit. A single audit does encompass a Yellow Book audit. So the answer to your question is yes. So if we get 750 Federal, we spend it doing a single audit that means we are gonna be subject to the Yellow Book requirements automatically, yes for not-for-profit agencies. So that's important to distinguish as well, because sometimes for-profit may have its own different set of rules and regulations too. So most of our conversation today, we really focus on our not-for-profits, since they're typically the ones you'll see getting the yellow books. Most times what I will see with clients is they don't trigger the single audit, they're not gonna need the Yellow Book audit.

Emily Nesbitt: So what exactly is included within the Yellow Book standards?

Alexander K. Buchholz: So with the Yellow Book standards, what it really [00:05:00] asks you to do is to look at certain requirements you're looking really at internal controls, that's really the key. Looking at the internal controls and comfort that your client's internal controls are operating as they should be that's the yellow book rules and guidance that we as auditors need to follow.

Emily Nesbitt: And so are the requirements, especially for testing internal controls, are those significantly different, I guess from the standards within generally accepted auditing standards?

Alexander K. Buchholz: They really should not be because they're really one and the same. You're doing your Yellow Book audit at the same time as your general financial statement order. Those controls are gonna be the same. So they really should be similar. So a lot of times when you're doing your testing, you're able to maximize the use of your audit time by doing it at the same time that you're doing the general audit. Where it would be different would be if we entered into the single audit realm that then you're doing [00:06:00] testing over compliance with those specific controls relative to the major federal programs. Whereas in a yellow book, it's just our standard internal control system.

Emily Nesbitt: Right, okay. So that's the major differentiator there is if you're testing the compliance for that actual government funding.

Alexander K. Buchholz: Correct.

Emily Nesbitt: Okay, great. And then when performing financial audits under the government auditing standards, does the auditor also need to refer to your normal professional standards in accordance with the AICPA and that kind of thing?

Alexander K. Buchholz: Correct, so there is that AICPA guidance. There's AICPA Government auditing standards, a book that comes out every year. So those are the standards that you would be referring to and testing when you're doing these Yellow Book audits.

Emily Nesbitt: And I guess, are there any areas where the government auditing standards and gas conflict? Or like you said before, is it mostly [00:07:00] aligned?

Alexander K. Buchholz: They're mostly in alignment, I would say. Usually in regular financial statement audits, we use the word should, it's automatically implied that you must be doing something. Whereas when you do the yellow book, should really means should. It's highly recommended, it's not required like it is in generally accepted auditing standards. So that's one area. The independence requirements also are a little more stringent when we talk about a Yellow book audit versus generally accepted auditing standards is a higher level of independence requirements.

So for the sake of argument getting into that conversation, we have to look at the true independence. So a lot of times with clients, we are assisting them in the preparation of their financial statements, will help them prepare the exhibits and the notes. When you get to the yellow book is very strict about that. Okay, you're going to [00:08:00] assist a client, you're gonna help them review. So when you help them review their statements and everything else, can somebody at the client take the responsibility to review your work, take the ownership. Because if the client says, well, if you've done the work, we just trust what you did. That could be a breach of independence, that could be a very big breach. So there's gotta be safeguards that are applied. The Yellow Book standards are very clear that, okay, if you can't apply safeguards, we're sorry you can't do the audit. So very stringent. Very stringent with that.

Emily Nesbitt: And is that usually the case with these non-for-profit audits that the auditor would be sometimes. Helping to prepare or review items for the client, and also is now doing this Yellow Book audit as well?

Alexander K. Buchholz: That does happen a lot of times, but again, there needs to be some sort of safeguard by the CPA firm. Is there a second [00:09:00] partner who's reviewing these financial statements? That's a good safeguard or quality control department. This presents a challenge for a lot of smaller practitioners that it's a one person shop and they can't give it to anybody. So now are they forced to outsource and encourage additional cost and go to somebody else. And some practitioners don't wanna do that, they don't wanna spend that kind of extra money on that.

So it's a very hard decision. Then, gee, I'm a sole practitioner, client comes to me and says, can you do my Yellow Book audit? No no, I can't. We don't have that kind of expertise here. We don't want to. We also don't want to, that it does add additional burdens to the CPA firms. It is an area that's a must select for peer reviews. So for those firms that undergo peer reviews, if you do yellow books automatically, the peer review is gonna say, okay, how many did you do? I'd like [00:10:00] to see some of them, I'd like to sample some of them. So it's a high risk area for firms. It really is that and the single auditor are two high risk area.

Emily Nesbitt: Right and so I just from my curiosity as well, look, why do these separate Yellow book requirements exist for these types of engagements? Like why is this additional requirement needed in addition to following generally accepted auditing standards?

Alexander K. Buchholz: So it really is because of the world of government and public funding where this comes up. So, let's say we're fortunate enough, we are a private foundation where we're just getting money because people love us. We're not dealing with government funding, we don't have to worry about a single audit a Yellow book audit. We're providing a service, we're a nursing home, we're providing room and board. We don't have to worry about a Yellow book audit necessarily, or a single audit because we're getting Medicaid, Medicare money. We're providing that service. It's not needed. We're a social service agency, we're the YMCA. And you know something? We do [00:11:00] need to go to the government, we do need their public support. Now, the rules are a little more stringent when you enter into that world. And a lot of times we tell that to clients, gee, Alex, I'm thinking of getting a government grant. That's great, but let me tell you some of the things that go along with that. And a lot of times client will say, wow, I didn't realize there was this much requirements. You know something, I don't know if I wanna go that road.

Emily Nesbitt: Okay. So if you could just summarize for us here before we, I wanna dive into the independence requirements in a little more detail but before we move on, can you just really summarize what the main additional responsibilities are then here for the auditor when it comes to government auditing standards compared to general auditing standards?

Alexander K. Buchholz: So additional documentation regarding independence, assessment of the personnel working at the client and again, really robust documentation of internal controls as well.

Emily Nesbitt: Okay, [00:12:00] so let's jump into those independence requirements then now. So first off, how do the government auditing standards independence requirements differ from those outlined within the AICPA Independence rules?

Alexander K. Buchholz: So, you know they are similar but there are some specific differences. The biggest one being the non-audit service. And again, non-audit services could be, assisting the client with preparing certain analyses, conversion of the cash basis of accounting to the accrual basis of accounting and financial statement preparation. And these items really are non-audit services so when you're doing non-audit services for a test client, you really need to have excellent documentation surrounding how you applied safeguards. The client can convert from the cash basis to the accrual basis. They don't have the time, Alex, I don't have the time on other [00:13:00] staff, you do it. You're the professional. But you give it to me and I'm gonna review it and I'm gonna question you on it. That's a safeguard, that's a comfortable safeguard. A client that says, I really, I can't do this work because I don't understand it. Problem is we as the order become part of the internal controls and we don't want that, you don't wanna do that. The client's gotta be able to sign off on it, on their audit.

Emily Nesbitt: Okay. So you mentioned non-audit services there. Can you give us some examples of types of non-audit services that would not create a threat to independence?

Alexander K. Buchholz: Well, all of them potentially may not impair independence. So let's go back to the one we keep doing the financial statement preparation. That doesn't, if you assist your client in preparing a financial, it doesn't mean automatically you need to withdraw from the engagement, it just means you gotta step back and the key, where we keep [00:14:00] reiterating is safeguards. Safeguards, gotta have safeguards. Non ordered services that we could do, the tax return. We assist, not assist, we prepare tax returns for our clients in the nonprofit space. All right? We documented that the client reviews the information, they accept responsibility for that and it's a safeguard.

It's the client. You have to be concerned with that really just, Alex, we lean on you. That's where the yellow book says, no, you can't do that. And it's undergone more revision now. The latest government auditing standards for the yellow book that are out there are from 2018, which was revised from 2011. So in 2011 there was some, again, more liberal standards in 2018 now standards are very tight. You're doing these non-audit services automatically, it's a significant risk. Automatically. Does it mean you can't do the audit? Not at all, we used [00:15:00] to have to document around it.

Emily Nesbitt: Okay, so let's move on now and talk about the conceptual framework that's outlined within the Yellow Book. So the conceptual framework outlines five main steps, which is meet the general requirements, determine non-audit services are not otherwise prohibited. Identify threats to auditors, independence, evaluate the significance of threats, and identify and apply safeguards. So can you start, Alex, by just walking us through what the conceptual framework is?

Alexander K. Buchholz: So the conceptual framework from the yellow book, from the yellow book itself really just gives you an overview and kind of a decision tree of whether or not you're going to be able to perform these services. And really what happens with the professional is they've gotta assess it. So you need to make sure, okay, I've identified the threat. How do I now handle that threat? How do I apply the safeguards to that threat? How significant [00:16:00] is this threat? And if I'm able to identify and apply safeguards and document this, the conceptual framework says, proceed do this audit. Because again, the Yellow Book is not designed to take away business from a CPA from also, that's important to note for those listening.

They're not trying to take away your, the food that you eat, but they are trying to make sure that there's not a problem out there when it comes to independence. So this is something that should be done and I do tell this when I do training in our firm since I conduct a lot of the not-for-profit training. Make sure you do this assessment, this conceptual framework at the beginning of an audit. This is not something that you are doing as a last step because if that's what you're doing, you may have a problem when you get to the end, oh, you know what? I have a significant threat and I can't overcome it. Well, now what do you do? So that's something to be, definitely [00:17:00] looking out for in the planning phase of an audit.

Emily Nesbitt: That's a great point to make sure you're looking at the conceptual framework upfront, right? During that planning phase. So that first step there is meeting the general requirements. Can you walk us through what is meant by the general requirements?

Alexander K. Buchholz: Sure. So, in terms of the general requirements, do you have the knowledge to do a particular single audit? With the conceptual framework, do you have the knowledge to do the yellow book? Do you have the right CPE requirements?

Emily Nesbitt: And in regards to the team and the organization having the appropriate skills and knowledge, how would you determine if you are up to the expectation of what skills and knowledge you need to have?

Alexander K. Buchholz: On the side we assess the client. How long have they been doing this kind of work? They've been doing this kind of not-for-profit work for 10 years, they know the [00:18:00] organizations, they're a CPA so maybe they need to get their requirements, their education. They have worked in maybe several organizations with similar types of audit requirements. That gives you skills, knowledge and expertise and comfort. If you're seeing somebody that comes from a for-profit entity from the SEC world then you're gonna say, well, you know what? You're coming from a totally different animal.

How are you going to be able to review and understand the work we're doing? So really that's why it's so important to assess that, how are you guys gonna review and take comfort over the work?

Emily Nesbitt: Okay. So it's not just, experience within audit or accounting in general, it's really within the not-for-profit industry specifically, and working with these government auditing standards. You wanna make sure that your client has that experience there.

Alexander K. Buchholz: That is correct. Where possible, where [00:19:00] possible, yep. Or at least has enough knowledge to question so maybe they're not the expert but they can what is this yellow book? Can you talk to me about it? Can you walk me through it? Can you walk me through the report that you're issuing with this? So, as long as they could ask those intelligent questions, it gives us more comfort. Somebody that just says, all right, thank you, and I'm gonna sign off for a fact that there could be a problem with that skills.

Emily Nesbitt: Right. Right. And have you seen any other red flags maybe in practice where you thought that like management doesn't seem to maybe have the right skills or knowledge or expertise here?

Alexander K. Buchholz: I've been fortunate that a lot of my clients, they may not be experts but they can really look at it and ask such excellent question that I'm comfortable. All right, they didn't just say, well, Alex did it, Alex blessed it, it must be perfect. They really can question and educate themselves as well. They educate themselves through our [00:20:00] guidance that, okay, this is what a yellow book is, this is what I need to make sure I'm taking responsibility. And even when we get to the final stages of these audits with the letter of representation that management signs. They're signing off that, you guys assisted with the financial statements and we take full responsibility as the client. So they're signing a rep letter that puts them on the hook too. So again, that's something to take note.

Emily Nesbitt: Yeah. And with signing that rep letter, it kind of, gives management the accountability to what they're responsible for and what you are expecting out of them with performing their yellow book audit.

Alexander K. Buchholz: Correct.

Emily Nesbitt: Worst case scenario here what happens if management refuses maybe to take that responsibility or the auditor finds that they don't have that necessary skills and knowledge that's needed?

Alexander K. Buchholz: Hopefully it would be done in the planning stage so that there's kind of a nice mutual parting of the [00:21:00] ways because if they're not gonna take the responsibility, it's an impairment, then we would have to say to them we really can't do your audit. But what we have seen going on in industry is we could say, we can't do your audit but if you want, we can help you do the financials and help with your bookkeeping and you know what? We'll be your accountants, we won't be your auditor. but now you gotta go out there and hire another set of auditors. So for some clients, can they afford to pay a CPA firm to do the bookkeeping than another CPA firm to do the audit? That comes into a question of cost. But we have seen some some clients that it's going a different road, that they'll say, all right, you know what? We like you. You know what, Alex, stick around. Why don't you help us to do this? Get us ready for the audit. We'll do a consulting agreement audit and we'll hire another CPA firm cause we can't do this work. You know the work and then we don't have to worry about this independence.

Emily Nesbitt: Okay, great. So let's go back to the step in the [00:22:00] framework of determining the non-audit services that might not otherwise be prohibited. What are some examples of prohibited services and where can we find those in the Yellow book?

Alexander K. Buchholz: So again, they are in the yellow book in specific sections that will tell you the nature of all the services that are out there, that are prohibited explicitly, that are prohibited. But as long as we can determine them and then really identify the threats to the auditor's independence, we then have a safeguard of let's evaluate how significant this is and whether or not we can identify and apply the safeguards. If we can, you can move on with audit.

Emily Nesbitt: Okay, so just because the services are listed in the Yellow book as prohibited, as long as you can identify what the threats to independence are and implement appropriate safeguards, then you could potentially perform those prohibited services.

Alexander K. Buchholz: In most cases, that is correct, yes. In most [00:23:00] cases that would be correct, there may be one or two exceptions if you're doing single audits when it comes to the preparation of indirect cost rates, but that would not be part of the Yellow Book conversations. But definitely yes, it's just identifying the safeguards.

Emily Nesbitt: So when we're identifying the threats to independence, are these same threats similar to what we would see when we learn about independence from, the AICPA professional code of conduct, like self-interest threats, self-review threats, those kind of identified threats. Are those similar types of threats that we're looking for.

Alexander K. Buchholz: They still do carry forward, because again we're still doing an audit. So you know, we can't do self review. So client says to us I can't prepare this particular analysis, we want you to do it well, if I'm reviewing my work, that's an automatic independence issue.

Emily Nesbitt: And I guess in practice, in your experience, which of these types of independence threats do you most often see with these government audits?

Alexander K. Buchholz: The financial statement [00:24:00] assistance but that's the really the biggest hurdle I see in a lot of clients.

Emily Nesbitt: Okay. So that self-review threat, you're preparing the financials and then reviewing and auditing it as well.

Alexander K. Buchholz: Absolutely.

Emily Nesbitt: So in that scenario where there might be an existing self-review threat and the auditor is maybe preparing the financials and reviewing or auditing as well. Since this is maybe the most common that you see with the governmental audits, what are also the most common safeguards that you see these organizations implement so that the threat to independence is reduced to an appropriate level?

Alexander K. Buchholz: So what we'll see at the client's side is obviously, hopefully somebody on their side has the knowledge, or maybe again, they have a team, maybe the collective efforts of the team will get around it. What else do we see on the CPA firm side is really the safeguard being all right, Alex is the partner, we're going to give it to a second partner who has nothing to do with the audit, [00:25:00] they're gonna take a fresh look, they're gonna give Alex comments, give him, thoughts. That's a safeguard. Giving it to a quality control team, that's a safeguard to kind of get around this. And this works for sizable firms. As we discussed before, this isn't gonna work for a small practitioner that may not have that resource. Maybe it's a two person firm and one person is the audit, one person is tax. They're not gonna be able to really say, all right, I'm a tax person let me review this yellow book. They're not gonna have that Skills and knowledge.

Emily Nesbitt: And the government auditing standards, they indicate that non-audit services can kind of fall into three different categories, which is either those that automatically impair independence, those that are just significant threats and then those that are threats. Maybe not significant threats, but just threats. So could you maybe give us an example of services that would maybe on the firsthand, [00:26:00] automatically impair independence?

Alexander K. Buchholz: So automatic independent of impairments would be converting cash to accrual basis and really the preparation of the financial statements, that's an automatic. And we've kind of spoken about that a great length so far in our conversation. That really is the hot topic when it comes to the yellow book. So it's an automatic, significant threat and at that point we stop and let's identify those safeguards to get around.

Emily Nesbitt: So then can you clarify for us as well maybe examples of services that might result in a significant threat versus a regular threat?

Alexander K. Buchholz: A regular threat would be the preparation of the tax returns, information returns. Significant is, like we said conversion of accrual, financial statement preparation, that's a significant threat.

Emily Nesbitt: And We've talked about throughout here as well, that you need to implement and apply the safeguards to make sure that the independence threats are reduced to an acceptable level. [00:27:00] Obviously, that's a bit of a subjective term. So I guess, how do you know when you've reduced that risk to an acceptable level, and what would you say is acceptable in this instance.

Alexander K. Buchholz: It really is a matter of professional auditor judgment. You've gotta be able to be comfortable that have gone a forbid this ever went to the AICPA or you ended up in a court of law, you can reasonably and comfortably say, look, we did everything we could, we applied all the safeguards. This was really the best we could do.

Emily Nesbitt: So it's not just, stopping at once you've implemented maybe one control on there's an additional reviewer or whatever it may be. Like it's really taking the necessary steps in implementing, a number of controls to make sure that you're comfortable as the auditor.

Alexander K. Buchholz: Correct. And each firm is very different. They may feel that another partner review is sufficient. Some may feel they need more than one, it really depends on the firm, the partner, size of the firm and also economics. A firm may say, [00:28:00] look, I don't wanna have six partners looking at this financial, it's gonna incur more cost I'm gonna go to two partners and that's it. So really, it's all a matter of professional judgment.

Emily Nesbitt: So let's move on here from Independence and another key item that differs from the regular AI CPA guidance is the CPE requirements around Yellow Book. So can you tell us where the CPE requirements are covered within the Yellow Book and what individuals are responsible for in regards to CPE?

Alexander K. Buchholz: So there's a whole chapter four of the Yellow book and it does talk about this concept of, independence. It talks about continuing professional education requirements as well. And really, you have to have competent auditors that's doing the work and really it's gotta [00:29:00] be before beginning the engagement. All right, we're gonna pick a team and whoever's on that team has to do the yellow book credits. So you can't argue that, well, we had one team that did the regular audit and another team did the single audit, which covers the yellow book. So only that team needs to have that, only the partner has to have it.

Now once you're working on a financial audit with a yellow book, it's kind of guilty by association. You've gotta get those credits, you must get those credits. And a lot of times we see that firms will say, oh no I didn't do the single audit, I didn't do the Yellow Book audit. Well, you still did the regular audit, you still have to get it. And you have to have documentation of each auditor's continuing education requirements.

Emily Nesbitt: So what are the actual requirements in terms of number of hours needed and the content?

Alexander K. Buchholz: Those requirements, really, depending on what role you are, if you're planning, directing, performing [00:30:00] procedures or reporting on a Yellow book audit, you've gotta have at least 80 hours of CPE in every two year period.

And of the 80, we're gonna have 56 CP hours in the subject matter that directly enhances the auditor's professional judgment. So, Obviously it's gotta be auditing, so we can't do it in tax, gotta be auditing. So that's 56. 24 credits, in addition to that, to get to the 80 is related to government auditing standards. Specific yellow books. You gotta make sure when you're taking those credits that when you look at the course outline, it says eligible for yellow book. Cause a lot of times when people go on webinars such as this or other providers, they take a course, great. Did it count? No, it didn't. So you gotta make sure it says counts for Yellow Book. It could be Yellow book government auditing, or the unique [00:31:00] environment in which the audited entity operates. We're taking an eight hour course in not-for-profit accounting. Okay, that relates to the entity? We can count that for yellow book. A lot of times when people, when I teach our single audit courses, that automatically counts for Yellow Book cause of the nature of what we're talking about.

Emily Nesbitt: And when do these hours need to be completed by?

Alexander K. Buchholz: Basically those 56 and the 24 need to be taken in a two year period. The 24 hours, you can take 'em any time in the two year period but you should at least complete 20 hours of CPE in each year of the two year period.

Emily Nesbitt: And are there any exceptions to these rules?

Alexander K. Buchholz: It's not applicable if you are a non-supervisory auditor that's charging less than 40 hours. Now that's rare. That is rare. It does happen, but it's a rarity. Auditors that charge less than 20% of their time annually and are only involved in performing engagement procedures, they may [00:32:00] be exempt from the 56 hour rule. That's something that's important that you need to determine at the beginning. I have had situations when I do peer reviews that this requirement was not met. The person argued, no, they didn't work on the audit and we're seeing yes they did. They did a lot of work on the audit that this requirement is applicable. And if you don't have these credits. Technically you didn't have enough skills as the auditor to do the job, you could have a job that's not in compliance. So that's also something to keep in the back of our minds as well.

Emily Nesbitt: Okay, so let's talk about specialists that may be assisting in a government audit engagement and their CPE requirements. So maybe, not the specific auditor but specialists that are assisting for these audits. What would be considered a specialist, I guess, in this context?

Alexander K. Buchholz: So they've gotta have a special skill that's being used in conducting the engagements. So maybe they specialize in government engagements. External specialists [00:33:00] would not, they're not income tax specialists, IT for this purpose, those are considered regular auditors. So specialists would not have the same CPE requirements for external. Internal specialists that are not part of the planning, directing, or performing the engagement are not subject. So if we have a pension specialist, somebody that works in our firm and gets involved with this particular audit, because they need to. If they get involved, they don't need to take those particular CPE credits cuz they're not involved in planning or executing the government audit. So again, there are exceptions to the rule.

Emily Nesbitt: Let's move on then here from CPE and something that's a bit unique to government audits is the concept of waste and abuse. So I would like to talk about this as well, and the Yellow book contains some [00:34:00] guidance on reporting around this. So can you explain what is meant by waste and abuse in this context?

Alexander K. Buchholz: Sure. So obviously, you know it, it's the act of using resources carelessly. The government is giving money to a nonprofit agency. It's tax money, this is our dollars. They wanna make sure it's not being used inappropriately. We're going to give out overtime without some sort of a control. Hey, I worked three hours overtime today. Okay, well wait a minute, wait a minute. Did you get that overtime approved? Was it really needed? Could somebody else have picked up the slack? Why should we give federal government money to you for overtime when it shouldn't have been done? We gave our bonuses to management, well, that they really deserve it. It's inappropriate actions and inadequate oversight. That's what it really comes down to.

Emily Nesbitt: And what would be some examples of waste and [00:35:00] abuse?

Alexander K. Buchholz: We're gonna go on a trip we're gonna go on a trip and we're gonna fly. We're not gonna drive, we're gonna fly. And we're gonna go first class. Well, you know what? A lot of times these government grants will tell you, get to your location with reasonable means. Regular, old, coach, that's fine. You don't need to go on the first class, you don't need to get the extra seat room, so to speak. You gotta be careful with that. Making a vendor selection that's contrary to existing policies. This is the best priced vendor. This is good quality vendor, but I know Joe and Joe is related to my cousin, so I'm gonna give it to him.

Emily Nesbitt: That's waste and abuse. And what is the auditor's role in detecting waste and abuse?

Alexander K. Buchholz: So we're not required to detect it, however, if we see something, we have to say something. So if you become aware of it, it's gotta be [00:36:00] brought up to the appropriate level of management. It may lead to an internal controlled deficiency in the report for the Yellow book because again, if for the sake of argument you are doing something with regards to travel and again, the accountant goes first class, where was the internal controls to say to that person? No, you can't do that. We'll pay for business, we'll pay for business class. The differential, the first class you have to pay. That would be an example. So again our job is to make sure nothing stands out. We're getting federal dollars, the example of the overtime. If you need overtime, is it being approved? Is there a real need for it?

Emily Nesbitt: And do you find that waste and abuse comes up often with Yellow book audits or is it just something that auditors should be aware of?

Alexander K. Buchholz: We should be aware of it, we should be aware of it. But I think to be very honest now, with the current staffing [00:37:00] crisis the way it is, there really isn't that much waste and abuse because there's really no one to waste it on. Maybe we have to give overtime because we lost the position, that's the justification. I lost my second accounts payable person, so I gotta give this person extra overtime. The CEO is doing a lot of work. We could justify a bonus because there's just a lot going on. So, as long as there's documentation and it's logical, we as the auditors can support that when it's out of the norm and just seems weird, is when we as the orders have say no, that this could be waste and abuse, this really could be. And again, this was a newer requirement of the 2018 Yellow Book that came out. So obviously this is still in its infant stages of findings and everything else.

Emily Nesbitt: Alrighty. And are there any, resources that are out there, Alex, that you would recommend to our audience if they're looking to get a better understanding of the Yellow Book [00:38:00] requirements or just do more research on it?

Alexander K. Buchholz: So I think obviously the Yellow book, definitely you can do that. The AICPA Audit Guide, the Government Accountability Office is another way to do that. All of this is available online or with paid subscriptions as well. Anybody doing a yellow book should have a subscription to the AICPA's Government Audit Quality Center, the GAQC.

Emily Nesbitt: And we'll include some links to some of those resources there that you mentioned in our visual aid as well, so our listeners can check those out if they'd like. This has been great, Alex. Is there any other last words or any pieces of advice that you'd like to give to any auditors out there working on Yellow Book audits?

Alexander K. Buchholz: Sure. What I tell auditors in my professional and as my peer, as a peer reviewer as well is if you're gonna do this, commit. We use the word dabble. Don't dabble in it. If you do a hundred audits, and these are two audits that [00:39:00] you do a year again, this is non-authoritative, this is just a humble opinion. You may wanna rethink should you be doing these things? Do you really have the expertise? Is it a headache that you want to incur? Or is it something that you wanna say, you know what? You have to do this Yellow Book audit, you're a charter school in New York that requires it. You know what? This isn't for us, we're gonna recommend you to a larger firm. And a lot of times that's how we get business and these smaller firms will say, look, I'm gonna recommend you to Alex. And it may be a couple more bucks, but these guys do this, this is what they do. Dedicate yourself to what you're doing. That's what I can advise you.

Emily Nesbitt: Absolutely. Yeah it's so important to have the expertise, right? Absolutely. That's great advice. Okay, well, Alex, if anyone has any questions or wanted to reach out to you at all, is there best way for them to do that?

Alexander K. Buchholz: Absolutely. We could probably share with them my email address A Buchholz@PKFod.com. So definitely reach out to me with any questions and I'll definitely [00:40:00] try to respond to you as soon as possible.

Emily Nesbitt: Perfect. And we'll include that contact information as well in our visual aid. So thank you so much, Alex, for being here, it's been a real pleasure.

Alexander K. Buchholz: Thank you for having me.