

## **PART 1 – BACKGROUND, PURPOSE, AND APPLICABILITY**

### **BACKGROUND**

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments that administer Federal financial assistance programs. In 1985, the Office of Management and Budget (OMB) issued OMB Circular A-128, “Audits of State and Local Governments,” to provide implementing guidance. In 1990, OMB administratively extended the single audit process to nonprofit organizations by issuing OMB Circular A-133, “Audits of Institutions of Higher Education and Other Non-Profit Organizations.” On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC Chapter 75). The 1996 Amendments extended the statutory audit requirement to nonprofit organizations and substantially revised various provisions of the 1984 Act.

On June 30, 1997, OMB issued revisions to OMB Circular A-133 (62 FR 35278) to implement the 1996 Amendments, extend the circular’s coverage to States, local governments, and Indian tribal governments, and rescind OMB Circular A-128. The 1996 Amendments required the Director, OMB, to periodically review the audit threshold. On June 27, 2003, OMB amended OMB Circular A-133 (68 FR 38401) to increase the audit threshold to an aggregate expenditure of \$500,000 in Federal funds and to make changes in the thresholds for cognizant and oversight agencies. Those changes took effect for fiscal years ending after December 31, 2003. OMB further amended the circular on June 26, 2007 (72 FR 35080) to (1) update internal control terminology and related definitions and (2) simplify the auditee reporting package submission requirement.

On December 26, 2013, OMB Circular A-133 was superseded by the issuance of 2 CFR part 200, subpart F. Among other things, those changes increased the audit threshold to \$750,000 for auditee fiscal years beginning on or after December 26, 2014 and made changes to the major program determination process. The Compliance Supplement (Supplement) is based on the requirements of the 1996 Amendments and 2 CFR part 200, subpart F, which provide for the issuance of a compliance supplement to assist auditors in performing the required audits.

This document serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without the Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing the Supplement is a more efficient and cost-effective approach to performing this research. For the programs contained herein, the Supplement provides a source of information for auditors to understand the Federal program’s objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

2 CFR part 200, subpart F, provides that Federal agencies are responsible for annually informing OMB of any updates needed to the Supplement. This responsibility includes ensuring that program objectives, procedures, and compliance requirements (including statutory and regulatory citations), noncompliance with which could have a direct and material effect on these individual Federal programs, are provided to OMB for inclusion in the Supplement, and that agencies keep that information current. Parts 4 and 5 of the Supplement provide a stand-alone section for each program/cluster included in the Supplement, which contains program objectives, program procedures, and compliance requirements. For some programs, a separate section (IV, “Other Information”) also is included to communicate additional information concerning the program. For example, when a program allows funds to be transferred to another program, the “Other Information” section provides guidance on how those funds are to be treated on the Schedule of Expenditures of Federal Awards and in Type A program determinations. See Appendix IV to the Supplement for a list of programs that contain this section.

The Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. For single audits, the Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

Throughout the Supplement, the word “must,” when used in conjunction with auditor responsibilities, means that the auditor is required to do what the statement indicates. Use of the term “should,” when addressing auditor responsibilities, indicates a recommended action or approach. See Part 3 of the Supplement for use of terminology in that Part, which addresses compliance requirements for auditees, as well as auditor responsibilities.

## **PURPOSE AND APPLICABILITY (Part 1)**

### **Purpose**

This Supplement is effective for audits of fiscal years beginning after June 30, 2015, and supersedes the Compliance Supplement dated June 2015.

2 CFR part 200, subpart F, describes the non-Federal entity's responsibilities for managing Federal assistance programs (2 CFR section 200.508) and the auditor's responsibility with respect to the scope of audit (2 CFR section 200.514). Auditors are required to follow the provisions of 2 CFR part 200, subpart F, and the Supplement.

### **Applicability**

#### *General*

Auditors must consider the Supplement and the referenced laws, regulations, and OMB Circulars/Uniform Guidance (whether codified by Federal agencies in agency regulations or adopted or implemented by other means) in determining the compliance requirements that could have a direct and material effect on the programs included herein. That is, use of the Supplement is mandatory. Accordingly, adherence to the Supplement satisfies the requirements of 2 CFR part 200, subpart F. For program-specific audits performed in accordance with a Federal agency's program-specific audit guide, the auditor must follow such program-specific audit guide. Finally, for major programs not included in the Supplement, the auditor must follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements that could have a direct and material effect on the program.

#### *Update of Requirements*

2 CFR section 200.513(c)(4) provides that Federal agencies are responsible for annually informing OMB of any needed updates to the Supplement. However, auditors must recognize that laws and regulations change periodically and that delays will occur between such changes and revisions to the Supplement. Moreover, auditors must recognize that there may be provisions of grant agreements and contracts that are not specified in law or regulation and, therefore, the specifics of such are not included in the Supplement. For example, the grant agreement may specify a certain matching percentage or set a priority for how funds can be spent (e.g., a requirement to not fund certain size projects). Another example is a Federal agency imposing additional requirements on a recipient (see 2 CFR section 200.207 regarding use of specific award conditions).

Accordingly, the auditor should perform reasonable procedures to ensure that compliance requirements are current and determine whether there are any additional provisions of Federal awards that should be covered by an audit under the 1996 Amendments. Reasonable procedures would be inquiry of non-Federal entity management and review of the Federal awards for programs selected for testing (i.e., major programs).

### *Safe Harbor Status*

Because the suggested audit procedures were written to be able to apply to many different programs administered by many different entities, they are necessarily general in nature. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether alternative audit procedures are needed. Therefore, the auditor cannot consider the Supplement to be a “safe harbor” for identifying the audit procedures to apply in a particular engagement.

However, the auditor can consider the Supplement a “safe harbor” for identification of compliance requirements to be tested for the programs included herein if, as discussed above, the auditor (1) performs reasonable procedures to ensure that the requirements in the Supplement are current and to determine whether there are any additional provisions of Federal awards that should be covered by an audit under the 1996 Amendments, and (2) updates or augments the requirements contained in the Supplement, as appropriate.

### *Responsibility for Other Requirements*

Although the focus of the Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors’ attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

## OVERVIEW OF THE SUPPLEMENT

### Matrix of Compliance Requirements (Part 2)

The Matrix of Compliance Requirements (Matrix) identifies the Federal programs and compliance requirements addressed in the Supplement, and associates the programs with the applicable compliance requirements. The Matrix also identifies the applicable Federal agency and the *Catalog of Federal Domestic Assistance* (CFDA) number for each program included in the Supplement.

### Compliance Requirements (Part 3)

Part 3 lists and describes the 12 types of compliance requirements and, except for Special Tests and Provisions, the related audit objectives that the auditor must consider, as applicable, in every audit conducted under 2 CFR part 200, subpart F, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. The auditor is responsible for achieving the stated audit objectives for the applicable compliance requirements.

Suggested audit procedures are provided to assist the auditor in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. The suggested audit procedures are, as the name implies, only suggested. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

The compliance requirements for Special Tests and Provisions are unique to each Federal program; therefore, compliance requirements, audit objectives, and suggested audit procedures for those Special Tests and Provisions—other than the audit objectives and suggested audit procedures for internal control—are not included in Part 3.

Consistent with the requirements of 2 CFR part 200, subpart F, Part 3 includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case-by-case basis, considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in 2 CFR part 200, subpart F.

### Agency Program Requirements (Part 4)

For each Federal program included in the Supplement, Part 4 discusses program objectives, program procedures, and compliance requirements that are specific to the program. With the exception of section III.N, "Special Tests and Provisions," the auditor must refer to Part 3 for the audit objectives and suggested audit procedures that pertain to the program-specific compliance requirements associated with the programs. Since, in general, Special Tests and Provisions are unique to the program, the specific audit objectives and suggested audit procedures for the program are included in Part 4.

The description of program procedures is general in nature. Some programs may operate somewhat differently than described due to (1) the complexity of governing Federal and State laws and regulations; (2) the administrative flexibility afforded non-Federal entities; and (3) the nature, size, and volume of transactions involved. Accordingly, the auditor must obtain an understanding of the applicable compliance requirements and program procedures in operation at the non-Federal entity to properly plan and perform the audit.

### **Clusters of Programs (Part 5)**

A cluster of programs is a grouping of closely related programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements 2 CFR part 200, subpart F (see definition at 2 CFR section 200.17).

The types of clusters included in Part 5 are: Research and Development (R&D), Student Financial Assistance (SFA), and other clusters. “Other clusters” are as identified in the Supplement or designated in a State award document. Part 5 provides compliance requirements, audit objectives, and suggested audit procedures for the R&D and SFA clusters and lists other clusters.

In planning and performing the audit, the auditor can determine whether programs administered by the non-Federal entity are part of a cluster by referring to the provisions of Part 5 of the Supplement and the State award documents.

### **Internal Control (Part 6)**

As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to maintain internal control to provide reasonable assurance of compliance with these requirements. 2 CFR part 200, subpart F, requires auditors to obtain an understanding of the non-Federal entity’s internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned. Part 6 addresses the objectives, principles, and components of internal control based on the “Standards for Internal Control in the Federal Government,” (“Green Book”), issued by the Government Accountability Office, and the “Internal Control Integrated Framework” (revised 2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### **Guidance for Auditing Programs Not Included in this Compliance Supplement (Part 7)**

Part 7 provides guidance to auditors in identifying the compliance requirements and designing tests of compliance with such requirements for programs not included in the Supplement.

### **Federal Programs Excluded from the A-102 Common Rule and Portions of 2 CFR Part 200 (Appendix I)**

Appendix I lists block grants and other programs excluded from the requirements of the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (also known as the “A-102 Common Rule”), which still may be in effect for some awards/funding and specified portions of 2 CFR part 200.

### **Federal Agency Codification of Governmentwide Requirements and Guidance for Grants and Cooperative Agreements (Appendix II)**

Appendix II provides regulatory citations for Federal agencies’ codification of the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215), “Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” in agency regulations or other means of implementation. This Appendix also includes regulatory citations for Federal agencies’ codification of the OMB guidance on (1) “Uniform Administrative Requirements, Cost Principles, and Audit Requirements” (in 2 CFR part 200), and (2) nonprocurement suspension and debarment in 2 CFR part 180.

### **Federal Agency Single Audit, Key Management Liaison, and Program Contacts (Appendix III)**

Appendix III identifies Federal agency-level contacts from whom auditors can request information or materials about Federal programs or the audit requirements of 2 CFR part 200, subpart F. It also includes for each program/cluster listed in Parts 4 and 5 of the Supplement the name of a specific individual who can be contacted concerning that program, along with the individual’s contact information.

### **Internal Reference Tables (Appendix IV)**

Appendix IV provides a listing of programs in Parts 4 and 5 that include IV, “Other Information.” This listing allows the auditor to quickly determine which programs have other information, such as guidance on Type A and Type B program determination or display on the Schedule of Expenditures of Federal Awards. This Appendix also indicates that the Medicaid Cluster is the only program currently identified as higher risk by OMB pursuant to 2 CFR section 200.519(c)(2).

### **List of Changes for the 2016 Compliance Supplement (Appendix V)**

Appendix V provides a list of changes from the Compliance Supplement, dated June 2015, to the June 2016 Supplement.

### **Program-Specific Audit Guides (Appendix VI)**

Appendix VI includes a list of program-specific guides maintained by the Federal agencies and indicates where to obtain them.

### **Other Audit Advisories (Appendix VII)**

Appendix VII provides information on (1) the impact of implementation of the uniform guidance in 2 CFR part 200 on major program determination; (2) the effect of removing compliance requirements from Part 3; (3) American Recovery and Reinvestment Act funding and the effect on single audits; (4) the due date for audit reports (due to (a) non-availability of the Federal Audit Clearinghouse for part of 2015, and (b) inability to file the revised SF-SAC) and low-risk auditee criteria; (5) treatment of National Science Foundation and National Institutes of Health awards; (6) agencies with OMB-approved exceptions to 2 CFR part 200 and the sections of their regulations that address those exceptions (based on the December 19, 2014 interim final regulations); and (7) common audit deficiencies cited in the report entitled *Report on the National Single Audit Sampling Project*, prepared by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

### **Examinations of EBT Service Organizations (Appendix VIII)**

Appendix VIII provides guidance on audits of State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Supplemental Nutrition Assistance Program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements (AT) Section 801, Reporting on Controls at a Service Organization. .

### **Compliance Supplement Core Team (Appendix IX)**

Appendix IX provides a listing of the Compliance Supplement Core Team members who were responsible for the production of the Supplement.

## **TECHNICAL INFORMATION**

### **Page Numbering Scheme**

The following page numbering scheme is used in the Supplement:

- a. Each page included in Parts 1, 2, 3 (Introduction), 6, and 7 is identified by a label that represents the part number and sequential page number. A dash (-) separates the part number from the page number. For example, Part 1 is numbered as follows: 1-1, 1-2, 1-3, and so on.
- b. In the 2016 Supplement, Part 3 is divided into Part 3.1 and Part 3.2 to accommodate the continuing government-wide transition from the A-102 Common Rule/OMB Circular A-110 (2 CFR part 215) to 2 CFR part 200. As a result, except for the Introduction to Part 3, the pages in Part 3 specify either Part 1 or Part 2. For example, Section A of Part 3 is either numbered 3.1-A-1, 3.1-A-2, 3.1-A-3, or 3.2-A-1, 3.2-A-2, 3.2-A-3, and so on.

- c. Each page included in Parts 4 and 5 (other than the Introductions to those parts) is identified by a label that represents the part number, section number identifier, and sequential page number. The section number identifier for Part 4 represents the CFDA number of the applicable program. For example, the Department of Labor's Unemployment Insurance program, CFDA 17.225, is numbered 4-17.225-1, 4-17.225-2, 4-17.225-3, and so on.

### **Code of Federal Regulations**

The CFR is a codification of the rules issued by Federal agencies. The CFR is divided into 50 titles, which comprise the broad areas subject to Federal regulation. Each title is further divided into parts and sections, with most references to the CFR being made at this level.

Portions of the CFR are revised daily and these changes are published in the *Federal Register*. However, a revised version of the CFR is published only once each calendar year, on a quarterly basis as follows: titles 1–16 on January 1, titles 17–27 on April 1, titles 28–41 on July 1, and titles 42–50 on October 1.

In the event that changes to a particular section of a title have changed since the last published update of that section, a notation is made in the List of CFR Sections Affected (LSA), which is published monthly. The LSA cites the *Federal Register* page number that contains the changes to the CFR section.

In order to obtain the most current regulations, the user should consult not only the latest version of the CFR, but also the LSA issued in the current month. The Federal Digital System home page (<http://www.gpo.gov/fdsys/>) offers links to both the *Federal Register* and the CFR. An electronic CFR (e-CFR) is available at <http://www.ecfr.gov>. The e-CFR is a compilation of CFR material and *Federal Register* amendments. It is a current, daily updated version of the CFR; however, it is not an official legal edition of the CFR.

### **HOW TO OBTAIN ADDITIONAL GUIDANCE**

Guidance to assist auditors in performing audits in accordance with 2 CFR part 200, subpart F, can be obtained from the following sources.

#### **Office of Management and Budget**

The following information is located under the grants management heading on OMB's home page (<http://www.omb.gov>).

- OMB publications, including 2 CFR part 200 and the Supplement for audits under 2 CFR part 200, subpart F.
- SF-SAC, *Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*.

## **General Services Administration (GSA)**

- *Catalog of Federal Domestic Assistance (CFDA).*

A searchable copy of the CFDA and a pdf version are available through the Internet on the GSA Home Page (<http://www.gsa.gov/cfda>). Note that, if the CFDA indicates under a program entry (Post Assistance Considerations – Audit) that audit is “Not Applicable” or the program is not subject to 2 CFR part 200 (**Note:** Some CFDA entries still may refer to OMB Circular A-133), the auditor should contact the Federal agency single audit office/official indicated in Appendix III of the Supplement.

## **Government Accountability Office (GAO)**

- Government Auditing Standards, December 2011 Revision (GAO-12-331G) (<http://www.gao.gov/yellowbook>)

## **Inspectors General**

IGnet Home Page (<http://www.ignet.gov>) contains an Inspector General Directory and the Inspector General Act.

## **Federal Audit Clearinghouse**

The Federal Audit Clearinghouse acts as an agent for OMB to (1) establish and maintain a Governmentwide database of single audit results and related Federal award information; (2) serve as the Federal repository of single audit reports; and (3) distribute single audit reports to Federal agencies.

The Clearinghouse maintains a site on the Internet at <http://harvester.census.gov/fac/>. For Data Collection Form (SF-SAC) and single audit submission questions, contact the Federal Audit Clearinghouse by e-mail ([govs.fac@census.gov](mailto:govs.fac@census.gov)), phone ((voice) 301-763-1551 or 800-253-0696), or fax (301-457-1592). For questions regarding previous submissions, contact the Federal Audit Clearinghouse Processing Unit at 888-222-9907. The Form SF-SAC and single audit submission must be submitted to the Federal Audit Clearinghouse through the Internet Data Entry System (IDES).