

Appendix VII

Other OMB Circular A-133 Advisories

I. American Recovery and Reinvestment Act

Background

The American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) (ARRA) and the related OMB Guidance (i.e., *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (February 18, 2009); *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (April 3, 2009); and *Updated Guidance on the American Recovery and Reinvestment Act* (March 22, 2010)) located at the OMB Management website (<http://www.whitehouse.gov/omb/management>) have significant implications for audits performed under OMB Circular A-133. The ARRA imposes new transparency and accountability requirements on Federal awarding agencies and their recipients. The single audit process will be a key factor in the achievement of the following accountability objectives in the OMB Guidance: (1) the recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner; and (2) funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated. Additional information on ARRA is available at www.recovery.gov.

Catalog of Federal Domestic Assistance (CFDA) Number

Federal agencies are required to specifically identify ARRA awards, regardless of whether the funding is provided under a new or existing CFDA number. The CFDA number should be included in the grant award documents.

New programs—Federal agencies will use new CFDA numbers for new ARRA programs or for existing programs for which the ARRA provides for compliance requirements that are significantly different for the ARRA funding.

Existing programs—Federal agencies may or may not use a new CFDA number for ARRA awards to existing Federal programs.

Effect of Expenditures of ARRA Awards on Major Program Determination

Clusters of Programs (Clusters) (SFA & R&D Excluded)

Clusters other than SFA and R&D, as listed in Part 5 of this Supplement, to which a new ARRA CFDA number(s) has been added in 2010 that has current-year expenditures should be considered a new program and would not qualify as a low-risk Type A program under § __.520(c) of OMB Circular A-133 (i.e., the cluster will not meet the requirement of having been audited as a major program in at least one of the two most recent audit periods as the Federal program funded under ARRA was-not previously included in the cluster).

Other clusters listed in Part 5 of this Supplement to which a Federal program with a new ARRA CFDA number has been added during the current year that also has current-year expenditures should be considered a new program and would not qualify as a low-risk Type A program under § ____.520(c) of OMB Circular A-133 (i.e., the cluster will not meet the requirement of having been audited as a major program in at least one of the two most recent audit periods as the Federal program funded under ARRA did not previously exist). The provisions of this paragraph do not apply to the SFA cluster as described in Part 5-3 Student Financial Assistance (Section IV, Other Information). The provisions of this paragraph also do not apply to the Research and Development cluster (R&D) (e.g., CFDA numbers are not listed in this Supplement for R&D and in some cases R&D is not assigned a CFDA number).

Type A Programs With ARRA Expenditures (SFA Excluded)

Even though a Type A program otherwise meets the criteria as low-risk under § ____.520(c) of OMB Circular A-133, due to the inherent risk associated with the transparency and accountability requirements governing expenditures of ARRA awards, any program or cluster with expenditures of ARRA awards would not qualify as a low-risk Type A. Even a *de minimus* amount of ARRA expenditures would not support identifying the program as low risk. The provisions of this paragraph do not apply to SFA as described in Part 5-3 Student Financial Assistance (Section IV, Other Information).

Exception

However, the auditor may consider a Type A program or cluster to be low-risk if **all** of the following conditions are met:

- (1) the program or cluster had ARRA expenditures in the prior audit period;
- (2) the program or cluster was audited as a major program in the prior audit period;
- (3) the ARRA expenditures in the current audit period are less than 20 percent of the total program or cluster expenditures; and
- (4) the auditor has followed § ____.520(c) and § ____.525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk.

Type B Programs (SFA Excluded)

The auditor should consider all Type B programs and clusters with expenditures of ARRA awards to be programs of higher risk in accordance with § ____.525(d) of OMB Circular A-133. The presumption is that Type B programs or clusters with ARRA expenditures would be audited as major when applying the provisions of § ____.520(e)(2). However, the auditor, when applying § ____.520(e)(2), is not precluded from selecting an especially risky Type B program that does not contain ARRA expenditures to audit as a major program in lieu of a Type B program or cluster with ARRA expenditures. The provisions of this paragraph do not apply to SFA as described in Part 5-3 Student Financial Assistance (Section IV, Other Information).

Schedule of Expenditures of Federal Awards (SEFA)

As described in §___.310(b)(3) of OMB Circular A-133, auditees must complete the SEFA and include CFDA numbers provided in Federal awards/subawards and associated expenditures. Many Federal agencies began including requirements similar to the following in their terms and conditions for ARRA awards to ensure separate identification of ARRA awards. This separate identification should also include the R&D cluster regardless of the accommodation made in §___.310(b)(1) of OMB Circular A-133. OMB specified in interim final guidance the use of the award term at 2 CFR 176.210 for this purpose (74 FR 18449, April 23, 2009), effective April 23, 2009.

Schedule of Expenditures of Federal Awards

To maximize the transparency and accountability of the American Recovery and Reinvestment Act spending required by Congress and in accordance with 2 CFR 215, section___. 21 –Uniform Administrative Requirements for Grants and Agreements” and the A-102 Common Rule provisions, recipients agree to maintain records that identify adequately the source and application of ARRA funds.

For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, recipients agree to separately identify the expenditures for Federal awards under the ARRA on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the ARRA separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix –ARRA-” in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

Responsibilities for Informing Subrecipients

Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.

Recipients agree to require their subrecipients to include on their SEFA information to specifically identify ARRA funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditures of ARRA funds, as well as for oversight by the Federal awarding agencies, Federal Offices of Inspector General, and the Government Accountability Office.

These responsibilities apply to recipients informing –first-tier” subrecipients, i.e., subrecipients who receive an award directly from the recipient. These responsibilities to separately identify and require separate presentation on the SEFA may not have been included in the terms and conditions in grant agreements for awards made by first-tier

subrecipients and below. However, where the funding was through an ARRA specific CFDA number or where a subrecipient chose to separately identify the grant as having ARRA funding, the subrecipient should separately present the information described above on their SEFA.

Auditors should consider these requirements when performing procedures for the purpose of providing the in-relation-to reporting on the SEFA, as well as when performing other procedures on the SEFA in conjunction with the compliance testing.

II. Granting of Extensions Eliminated

The single audit is a key tool used to drive accountability for Federal awards under ARRA. Due to the importance of single audits and the reliance of Federal agencies on the audit results to monitor accountability for all Federal programs, OMB has advised Federal agencies in *Updated Guidance on the American Recovery and Reinvestment Act*, dated March 22, 2010 (M-10-14), that they should not grant any extension requests to grantees for fiscal years 2009 through 2011. Federal agencies have either already adopted or are in the process of adopting this policy.

III. Clarification of Low-Risk Auditee Criteria

Background

Because Federal agencies rely greatly on the results of OMB Circular A-133 audits to monitor the accountability of Federal awards, Federal program and grantee risk increases when audits are not filed or are filed late with the Federal Audit Clearinghouse (FAC). Beginning with audits covered by this Supplement, auditors should be alert to the clarification provided by OMB Memorandum (M-10-14) which states: ~~In~~ order to meet the criteria for a low-risk auditee (OMB Circular A-133 §___.530) in the current year, the prior two years audits must have met the requirements of OMB Circular A-133, including report submission to the FAC by the due date (OMB Circular A-133 §___.320). For example, an auditee would not meet the criteria for a low-risk auditee for the fiscal year ended June 30, 2010, if the audits for either of the prior two years audits (fiscal years June 30, 2008 or 2009) were not filed with the FAC by the due date (March 31, 2009 and 2010, respectively, assuming no approved extensions). The auditor may consider using the following steps to identify FAC submissions that do not meet the due date.

Suggested Steps

1. Inquire of entity management and review available prior-year financial reports and audits to ascertain if the entity had Federal awards expended of \$500,000 or more in the prior two audit periods and, therefore, was required to have an OMB Circular A-133 audit and file with the FAC.
2. If the entity was below the \$500,000 threshold in either of the prior two audit periods, and an OMB Circular A-133 audit was not required, obtain written representation from management to this fact and no further audit procedures are necessary as the entity does not qualify as a low risk auditee.

3. If a prior year OMB Circular A-133 audit was conducted, obtain a copy of the data collection form (form SF-SAC) and the reporting package.
 - a. Calculate the “Nine Month Due Date” to file with the FAC as the date 9 months after the end of the audit period. For example, for audit periods ending June 30, 2009 the audit report would be due March 31, 2010.
 - b. Access the FAC webpage at <http://harvester.census.gov/sac/>.
 - c. Select the “Search the Single Audit Database” option and using the “Search for Complete Records Only – Entity Search” option, locate the FAC record for the entity. Verify correct record by comparing both entity name and EIN number from the entity’s copy of the SF-SAC to the FAC webpage.
 - d. For this record located on the FAC webpage compare the “Initial Received Date” (or “FAC Accepted Date” when available) to the Nine Month Due Date to determine if the due date was met. (The FAC is working to add to the FAC webpage the date FAC received the report submission that first passed the FAC screening and was accepted as a valid OMB Circular A-133 report submission (FAC Accepted Date)). This FAC Accepted Date will be more accurate in determining whether the Nine Month Due Date was met as the Initial Received Date gives credit to partial submissions).
 - e. If the Nine Month Due Date was not met, inquire of entity management whether they received an extension from the cognizant or oversight agency for audit. If an extension was received, review documentation from the Federal agency supporting the extension and determine a “Revised Due Date” considering the extension (Note discussion in section III of this Appendix that Federal agencies have been advised by OMB to not grant any extension requests to grantees for fiscal years 2009 through 2011).
4. If the entity was not in compliance with the Nine Month Due Date or Revised Due Date (if applicable) or did not submit the required OMB Circular A-133 audit to the FAC for either of the prior two audit periods, then the entity does not qualify as a low-risk auditee.
5. Contact the FAC at govs.fac@census.gov, (301) 763-1551 (voice), (800) 253-0696 (toll free), (301) 763-6792 (fax), if additional information is needed on using the FAC website or determining the date the FAC accepted the OMB Circular A-133 report submission as complete.

IV. Safe Harbor for Treatment of a Large Loan and Loan Guarantee Programs in Type A Program Determination

When applying the risk-based approach to determine which Federal programs are major programs, § 520(b)(3) of OMB Circular A-133 states: —The inclusion of large loan and loan guarantees (loans) should not result in the exclusion of other programs as Type A programs. When a Federal program providing loans significantly affects the number or size of Type A programs, the auditor shall consider this Federal program as a Type A program and exclude its values in determining other Type A programs.”

To promote consistency of practice, auditors may consider the following as a “safe harbor” for treatment of large loan and loan guarantee programs in determining Type A programs when planning audits.

- (1) Each individual program that includes loans or loan guarantees (as described in § 205(b) of OMB Circular A-133) that does not exceed four times the largest non-loan program is not considered to be large. A cluster of programs is treated as one program. The presumption is that only changes in the number or size of Type A programs that result from the exclusion of individual loan and loan guarantee programs that are in excess of four times that of the largest non-loan program are significant.
- (2) Auditors are only required to perform the recalculation of the Type A threshold described in § 520(b)(3) of OMB Circular A-133 when the expenditures for a loan or loan guarantee program is more than four times that of the largest non-loan program (a cluster of programs is treated as one program).
- (3) The recalculation is performed after removing the total of all large loan and loan guarantee programs.

Following are the examples for the Safe Harbor computation

Example No. 1

<u>Loan Program</u>	<u>Expenditures</u>
Student Financial Aid Cluster	
84.032 Federal Family Education Loans	299,000,000
84.038 Federal Perkins Loan Program	5,000,000
84.063 Federal Grant Program	859,000
84.033 Federal Work-Study Program	290,000
Loan Program Total	305,149,000

Note: The loan program expenditures include the loans beginning balance, current year loans, and any other loan program or cluster expenditures.

Non-Loan Programs

R&D Cluster (multiple CFDA #'s)	20,000,000
Department of Health and Human Services	
93.044 Special Programs for the Aging	650,000
93.015 HIV Prevention Programs	200,000
Department of Education	
84.002 Adult Education	400,000
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Non-Loan Programs Total	21,250,000
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Total Federal Expenditures (Loans and Non-Loans)	326,399,000

Type A Threshold Calculation Including Loans

Total Federal Expenditures (Loans and Non-Loans)	326,399,000
3/10 % for Threshold Calculation	3/10%
Type A Threshold Calculated including loans	979,197
Default Threshold per A-133	3,000,000

Safe Harbor Calculation

Largest Non-Loan Program	
R&D	20,000,000
Multiply by 4	x4
Total of four times the largest Non-Loan program or cluster (Safe Harbor Threshold)	80,000,000

Which loan program(s) exceed the Safe Harbor Threshold and should be classified as "Large" and removed from the Type A threshold recalculation?

SFA Cluster	305,149,000
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Type A Threshold Calculation without "Large" Loans

Total Federal Expenditures (Loans and Non-Loans)	326,399,000
"Large" Loan Programs:	305,149,000
Difference between lines 1 and 2 (recalculated total Federal Awards):	21,250,000
3% for Threshold Calculation	3%

Recalculated Type A Threshold	637,500
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Type A Programs for FY 20XX	Expenditures
SFA Cluster	305,149,000
R&D Cluster	20,000,000
93.044 Special Programs for Aging	650,000

Example No. 2

Loan Programs	Expenditures
Student Financial Aid Cluster	
84.032 Federal Family Education Loans	299,000,000
84.038 Federal Perkins Loan Program	5,000,000
84.063 Federal Grant Program	859,000
84.033 Federal Work-Study Program	290,000
SFA Total	305,149,000
10.415 Rural Rental Housing Loans Program	1,500,000
Loan Program Total	306,649,000

Note: The loan program expenditures include the loans beginning Balance, current year loans and any other loan program or cluster expenditures.

Non-Loan Programs	
R&D Cluster (multiple CFDA #'s)	20,000,000
Department of Health and Human Services	
93.044 Special Programs for the Aging	2,650,000
93.015 HIV Prevention Programs	200,000
Department of Education	
84.001 Grant for Schools	400,000
Non-Loan Program Totals	23,250,000
Total Federal Expenditures (Loans and Non-Loans)	329,899,000

Type A Threshold Calculation Including Loans

Total Federal Expenditures (Loans and Non-Loans)	329,899,000
3/10 % for Threshold Calculation	3/10%
Type A Threshold Calculated including loans	989,697
Default Threshold per A-133	3,000,000

Safe Harbor Calculation

Largest Non-Loan Program	
R&D	20,000,000
Multiply by 4	x4
Total of four times largest Non-Loan	80,000,000

Which loan program(s) exceed the Safe Harbor Threshold and should be classified as "Large" and removed from the Type A threshold recalculation?

SFA Cluster	305,149,000
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Type A Threshold Calculation without "Large" Loans

Total Expenditures with all Programs:	329,899,000
"Large" Loan Programs:	305,149,000
Difference between lines 1 and 2:	24,750,000
3% for Threshold Calculation	3%
Recalculated Type A Threshold	742,500

Type A Programs for FY 20XX**Expenditures**

SFA Cluster	305,149,000
R&D Cluster	20,000,000
10.415 Rural Rental Housing Loans	1,500,000
93.044 Special Programs for Aging	2,650,000

Example No. 3

Loan Programs	Expenditures
10.415 Rural Rental Housing Loans Program	104,679,000
14.248 CDGB_Section 108 Loan Guarantees Program	200,470,000
Loan Program Total	305,149,000

Note: The loan program expenditures include the loans beginning Balance, current year loans and any other loan program or cluster expenditures.

Non-Loan Programs

R&D Cluster (multiple CFDA #'s)	20,000,000
Department of Health and Human Services	
93.044 Special Programs for the Aging	650,000
93.015 HIV Prevention Programs	300,000
Department of Education	
84.001 Grant for Schools	1,932,300
Non-Loan Program Total	22,882,300
Total Federal Expenditures (Loans and Non-Loans)	328,031,300

Type A Threshold Calculation Including Loans

Total Federal Expenditures (Loans and Non-Loans.)	328,031,300
3/10 % for Threshold Calculation	3/10%
Type A Threshold Calculated including loans	984,094
Default Threshold per A-133	3,000,000

Safe Harbor Calculation

Largest Non-Loan Program	
R&D	20,000,000
Multiply by 4	x4
Total of four times largest Non-Loan	80,000,000

Which loan program(s) exceed the Safe Harbor Threshold and should be classified as "Large" and removed from the Type A threshold recalculation?

10.415 Rural Rental Housing Loans	104,679,000
14.248 CDGB_Section 108 Loan Guarantees	200,470,000

Type A Threshold Calculation without "Large" Loans

Total Federal Expenditures (Loans and Non-Loan Programs)	328,031,300
"Large" Loan Programs:	305,149,000
Difference between lines 1 and 2:	22,882,300
3 % Threshold Calculation	3%
Recalculated Type A Threshold	686,469

Type A Programs for FY 20XX	Expenditures
10.415 Rural Rental Housing Loans	104,679,000
14.248 CDGB_Section 108 Loan Guarantees	200,470,000
R&D Cluster	20,000,000
84.001 Grant for Schools	1,932,100

V. Report on the National Single Audit Sampling Project

In June 2007 the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) provided OMB with a report titled *Report on the National Single Audit Sampling Project* (Report). The full report is available at <http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>.

This report disclosed significant percentages of unacceptable audits and audits of limited reliability including failure to adequately document and test internal controls and compliance as required by OMB Circular A-133. Auditors are encouraged to review this report and related updates issued by the American Institute of Certified Public Accountants to ensure compliance with OMB Circular A-133 and this Supplement.

Common Deficiencies Identified in the PCIE Report

The most commonly occurring deficiencies cited in the Report are the following:

Material Reporting Errors (No. 1 on Page 17). Auditors misreported coverage of major programs. This occurred when the Summary of Auditor Results section of the Schedule of Findings and Questioned Costs identified that one or more major programs were audited as a major program when the audit documentation did not include support for all of the programs listed. Though inadvertent, this is a very consequential error because it results in the auditor opining on one or more programs that were not audited and report users relying on the erroneous opinions.

Apparent Audit Findings Not Reported (No. 2 on Page 18). The audit documentation or management letter content included matters that appeared to be audit findings. However, they were not reported as audit findings and there was no audit documentation explaining why.

Compliance (No. 3 on Page 20). In some audits, auditors are not documenting compliance testing of at least some compliance requirements. For most audits considered unacceptable, the lack of documentary evidence for compliance testing was substantial. The audit documentation did not always include evidence that the auditor tested major program compliance requirements or explain why certain generally applicable requirements identified in this Supplement were not applicable to the audit.

Also, in some cases the auditor documented that types of compliance requirements identified as generally applicable to the major program in Part 2 of this Supplement were not applicable (e.g., by marking "N/A" next to the item in an audit program), but did not explain why.

Internal Control (No. 4 on Page 22). In many single audits, auditors are not documenting their understanding of internal control over compliance as required by A-133 §.500(c)(1) in a manner that addresses the five elements of internal control. Further, the report stated that auditors did not document testing internal control of at least some compliance requirements as required by A-133 §.500(c)(2).

Risk Assessments of Federal Programs (No. 5 on Page 24). The following kinds of deficiencies in risk assessments of federal programs were identified:

- Required risk analyses not documented at all;
- Basis for the assessments of risk not documented;
- Documentation indicated the risk assessment not performed or not properly performed for reasons including: not considering all programs, improperly clustering programs, not clustering programs, or mistakenly categorizing a program as a Type A program (i.e., a program with large expenditures) or as a Type B program (i.e., a program with smaller expenditures); and
- Risk assessment decision not consistent with information in the audit documentation.

Audit Finding Elements (No. 6 on Page 25). A significant percentage of the audits reviewed did not include all of the required reporting elements in the audit findings.

Schedule of Expenditures of Federal Awards (SEFA) Problems (No. 7 on Page 26). While SEFA preparation is a client responsibility, the auditor reports on the SEFA in relation to the financial statements and the information in the SEFA are key to major program determination. For many audits reviewed, one or more of the following required SEFA content items were omitted:

- Subgrant awards numbers assigned by pass-through entities not included
- Names of pass-through entities missing
- Grantor Federal agency names missing
- Grantor Federal agency subdivision names missing
- Multiple lines for Catalog of Federal Domestic Assistance (CFDA) numbers shown – total expenditures for CFDA number not shown
- Programs that are parts of a cluster not shown as such
- Notes to SEFA missing
- Correct CFDA number; and
- Research and Development (R&D) programs not identified as such.

Management Representations (No. 8 on Page 28). For several audits, some or all of the management representations (identified in the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*), were not obtained. In a few other cases, the management representations were obtained several days prior to the dates of the auditor's reports.

Materiality (No. 9 on Report Page 29). In single audits, the auditor must consider his or her findings in relation to each major program, which is a significantly lower materiality level than

all programs combined. In some of the audits reviewed, the auditor did not document whether he or she considered materiality at the individual major program level.

Sampling (Other Matters -Page 36). In the audits reviewed, inconsistent numbers of transactions were selected for testing of internal control and compliance testing for the allowable costs/cost principles compliance requirement. Also, many single audits did not document the number of transactions and the associated dollars of the universe from which the transactions were drawn.

Other Findings (No. 10 on Page 29). Numerous other findings were noted, primarily attributed by the reviewers as being caused by a lack of due professional care. They included the following:

- Low-risk auditee determination not documented or incorrect,
- Minimum percentage of coverage requirement not met,
- Audit programs missing or inadequate for part of the single audit,
- Part of a major program or a major program cluster not tested,
- The Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs missing some information or including erroneous information,
- Error in threshold for distinguishing Type A and Type B programs, and
- Indications that current compliance requirements not considered.