



The 2013 OMB *Compliance Supplement* and Proposed Single Audit Reforms



Assurance • Tax • Consulting

Today's Presenter



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What we will cover

- An overview of what has changed in the 2013 Supplement and continuing guidance that is particularly important
- Federal Audit Clearinghouse – 2013 Form Changes
- Proposed Single Audit Revisions and Other Key Grant Reforms
- Other Important Matters Relevant to OMB Circular A-133 Audits
- Questions





Key Changes Made in the 2013 Supplement





Single Audits - 2013 Compliance Supplement

- Expected timing of final release
- Access Supplement upon its release
 - www.whitehouse.gov/omb/grants/
- Be sure to use correct year's edition
- Warning! *Compliance Supplement* is not final; following slides subject to change!





2013 Compliance Supplement

- Effective for audits of fiscal years beginning after June 30, 2012, and supersedes the 2012 Supplement
- Appendix V, *List of Changes for the 2013 Compliance Supplement*, identifies all changes at a high level
 - Important roadmap that should be used



Part 2 Changes, Matrix of Compliance Requirements

- Added and removed programs
- Modified to eliminate some compliance requirements previously identified with a "Y"
 - Prior "Y" criterion "more than remote;" revised criterion "more likely than not"
- Requirements Primarily Affected
 - Equipment and Real Property;
 - Procurement and Suspension and Debarment;
 - Program Income; and
 - Real Property Acquisition and Relocation Assistance



Part 3 – Compliance Requirements, I. Procurement and Suspension and Debarment

- Procurement – Added that procurement is subject to OMB Circular A-110 (2 CFR Part 215), as applicable
- Clarified what is included as a covered transaction
- Suggested Audit Procedure Step 4e – Federal Agency Approval - clarified procurement thresholds
 - \$100,000 threshold for procurement under grants will be changed to \$150,000 when the Council on Financial Assistance Reform's efforts to consolidate OMB guidance are completed.
 - In the interim, the \$100,000 threshold continues to apply unless an agency/program has issued guidance raising the threshold or the increased threshold is specified in the terms and conditions of award.



Part 3 – Compliance Requirements, I. Procurement and Suspension and Debarment

- Added/Revised Suggested Audit Procedures
- NEW Step 6. Review the non-federal entity's procedures for verifying that an entity with which it plans to enter into covered transaction and any of its principals is not debarred, suspended, or otherwise excluded.
- REVISED Step 7. Select a sample of procurements and subawards and —
 - Test whether the non-Federal entity followed its procedures before entering into a covered transaction.



Part 4 – Agency Program Requirements

- Numerous changes to agency program requirements for individual programs
- See Appendix V for a list of changes



Part 4 – Agency Program Requirements, 340B Pricing Program

U.S. Department of Health and Human Services (HHS) Health Resources and Service Administration (HRSA) - 340B Drug Pricing Program (340B Program) (see [GAQC Alert #216](#))

- Several new requirements in the 2012 Supplement (CFDA 93.224, 93.917, and 93.918) in Special Test and Provisions
- 2013 Supplement removes compliance requirement for 340B program (based on HRSA memo to grantees)



Part 4 – Agency Program Requirements, 340B Pricing Program

- Compliance Supplement will likely say:
 - Not required to perform tests for 340B program for 2012 single audits currently underway or not yet started
 - Auditor will not be required to consider such findings or opinion modifications related solely to the 340B Program Special Tests and Provisions in their risk assessments in 2013 audits
 - Would not preclude those programs from being low risk or an entity qualifying as a low-risk auditee in the two subsequent year single audits
- See Appendix VII for the above language concerning the effect of this removal



Appendix VII – Other OMB Circular A-133
Advisories – A Refresher

- Recovery Act
 - Recovery Act funds dwindling but may still affect some auditees
 - Updated list of ARRA programs not covered in Parts 4 or 5 of the Supplement, but potentially subject to an A-133 audit
 - 2013 *Compliance Supplement* guidance continues to say:
 - Clusters of programs with new Recovery Act CFDA number would fail 2-year lookback and have to be audited (excludes R&D and SFA clusters)
 - Type A programs having Recovery Act expenditures generally would not be low-risk unless meet defined exception
 - Type B programs still considered higher risk



Appendix VII – Other OMB Circular A-133
Advisories – A Refresher

- Exception for Type A Recovery Act programs slightly revised in 2012 *Compliance Supplement* and is expected to remain the same in 2013 Supplement
- An auditor may consider a Type A program or cluster to be low-risk if all of the following conditions exist:
 - Program or cluster had Recovery Act expenditures in the prior audit period;
 - Program or cluster was audited as a major program in **EITHER OF THE TWO PRIOR AUDIT PERIODS**;
 - Recovery Act expenditures in the current audit period are less than 20% of the total program or cluster expenditures; and
 - Auditor has followed Section 520(c) and 525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk



Part 5 - Clusters of Programs

- Many ARRA programs removed from clusters
- OMB expected to add guidance to Appendix VII to address major program determination when an entity has expended federal awards in the audit year for these deleted programs
 - Program would not be considered as part of a cluster for periods covered by 2013 Supplement as the 2013 Supplement does not include the program in a cluster
 - If the program was part of a cluster which was audited as a major program in a prior year, it would be considered as audited in that prior year for purposes of major program determination, including consideration of any audit findings
 - In determining major programs the Appendix VII provisions titled "Effect of Expenditures of ARRA Awards on Major Program Determination" would apply



Part 5 – Clusters of Programs - ARRA

- Caution! Deleted ARRA programs with expenditures in current year that make them a type A program may have to be audited as high-risk
- The reason? See criteria on slide 21
 - While the type A ARRA program may meet the criteria as having been audited in either of the prior two periods
 - Keep in mind that one of the other required criteria is that ARRA expenditures in the current period have to be less than 20% of total program or cluster
- Deleted ARRA programs with expenditures in current year that are considered type B
 - See Appendix VII guidance – type B with ARRA funds are "higher risk"



Part 5 – Clusters of Programs - ARRA

- Testing compliance when ARRA program has been deleted from Part 4, *Agency Program Requirements*
 - Use guidance from Part 7, *Guidance for Auditing Programs Not Included in This Compliance Supplement*, to develop audit
 - Prior year *Compliance Supplement* may be useful in working through the Part 7 guidance since it contains a section for the deleted program in Part 4



Part 5 – Clusters of Programs – National Science Foundation (NSF)

- All awards issued by the NSF meet the definition of "Research and Development" (R&D)
- Auditees should identify NSF awards as part of the R&D cluster on their SEFA
- NSF recognizes that some awards may have another classification for purposes of indirect costs
- See Appendix VII for the above described guidance on NSF awards





Federal Audit Clearinghouse – 2013 Form Changes



Federal Audit Clearinghouse – 2013 Form Changes

- 2013 Form SF-SAC
 - *Federal Register* notice issued in May, comments due July 8, 2013 (GAQC will comment – **if you would like your feedback to be considered by GAQC, send it by June 17th**)
 - Final form not expected until late summer (to be used for 2013 single audits)
 - The new form and instructions will be applicable for audit periods ending in 2013, 2014, and 2015
 - More significant changes this time around



Federal Audit Clearinghouse – 2013 Form Changes

- Part I – General Information
 - Beginning with 2013 audits, all audit firms must report their Employer Identification Number (EIN)
 - Secondary auditors must report their EIN on the secondary auditor contact information page
- Part III: Federal Programs
 - Identify Loan/Loan Guarantee
 - Standardized Audit Finding Reference Numbers: YYYY-###, (ex. 2013-001)



Federal Audit Clearinghouse – 2013 Form Changes

- Interim Guidance Posted on FAC Web site Regarding 2013 Submissions
 - If a single audit for a fiscal period ending in 2013 is due before the 2013 Form is available, auditees will not be able to meet the thirty day deadline for submission prescribed by OMB Circular A-133, section .320(a). Therefore, OMB has granted an extension until September 30, 2013, for reporting packages due to the Clearinghouse before that date
 - The extension is automatic and there is no approval required
 - The extension applies only to single audits for the fiscal periods ending in 2013



FAC Update – 2013 Form Changes – Other Things to Look Forward to.

- New Submission Requirements
 - For 2013 audits with cognizant agency (and remaining audits in 2014) all reporting package uploads must be text searchable, unlocked, and unencrypted PDF files (FAC provides instructions when filing reports this year)
- Personally Identifiable Information Certification (PII)
- Longer Term Goal - make all reporting packages transparent to the public



FAC Update – PDF Requirement

SUCCESSFULLY UPLOADED

However, the system was unable to determine the encryption status of the file.
 Starting in 2014, files with unknown encryption will be rejected.
 All audit reports must be **UNENCRYPTED** (PRINTING and CONTENT COPYING allowed).

- ✔ **Text Searchable PDF**
 Searchable Percent: **100.00 %**
 Image Only Page numbers:
- ✘ **Unencrypted PDF**
 Printing Allowed: **Unknown**
 Content Copying Allowed: **Unknown**



FAC Update – Changes to FAC Website Coming Soon!

- New log-in page
- New personal accounts
- New submission report format
- New spreadsheet templates and uploads
- GAQC Web event on this topic in Fall 2013



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Federal Audit Clearinghouse – Search Tips

ADVANCED SEARCH OPTIONS - ENTITY SEARCH

Enter search criteria for one or more items. These search criteria follow the Form SF-SAC and contain three sections.

- General: Part I, Items 1-7.
- Financial Statements: Part II, Items 1-5.
- Federal Programs: Part III, Items 1-10.

* FAC Calculated For Questions which are not on the 1997-2000 Form SF-SAC
 † Questions are on forms beginning in 2004.
 ‡ Questions are on forms beginning in 2006.
 § Questions are on forms beginning in 2010.

[Revised Form SF-SAC and Instructions](#)

Return to Access Options Clear For a New Search View Results Download Results

Limit Number of Records Returned to:

Sort Options:

Audit Fiscal Year Ending in: (To select multiple audit years, hold the 'Ctrl' key down while making selections)

2011 2011

Records Completed (MMDDYYYY) On or After: 05-31-013 Before: 05-14-2013

Type Of Entity (FAC Determined for audit years beginning with 2001. Do not select types for 1997-2000 audit years.)
 (To select multiple Organizational or Mission types, hold the 'Ctrl' key down while making selections)



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Federal Audit Clearinghouse – Search Tips

(To select multiple states, hold the 'Ctrl' key down while making selections)

Auditor Zip Code:

Auditor Name:

Auditor City:

Auditor State(s):

(To select multiple states, hold the 'Ctrl' key down while making selections)

Auditor Zip Code:



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Federal Audit Clearinghouse – Quality Control Tips for Submission Review

- Lack of identification of clusters
- Improper application of definition of a federal program (programs with same CFDA #)
- Missed major program based on type A program 2-year look back
- Missed major program based on type A program with a prescribed prior year finding
- Inadequate percentage of coverage
- Improper determination of low-risk auditee status
- Type A program threshold calculation errors

Status Update on Proposed Circular A-133 Revisions

Background

- 2012 OMB Advance Notice Discussing Reforms to Circular A-133 – [See previous GAQC comment letter](#)
- New *Federal Register* notice of proposed changes
 - OMB Circular A-133
 - Cost principles and administrative requirements
 - Affects over \$600 billion in annual federal grants provided
- Overarching purposes and impact
 - Increase efficiency and effectiveness
 - Eliminate unnecessary and duplicative requirements
 - Focus audit efforts
- No proposed effective date
- No changes to the due date (because set in law)

Summary of Proposal

- [Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards Proposed Guidance](#)
- Other documents available on [OMB Web site](#) that should be helpful to you as follows:
 - Crosswalk from existing to proposed guidance
 - Crosswalk from proposed guidance to predominant source in existing guidance
 - Administrative Requirements Text Comparison
 - Cost Principles Text Comparison
 - Audit Requirements Text Comparison
 - Definitions Text Comparison
- [Related Archived OMB Web Event](#)



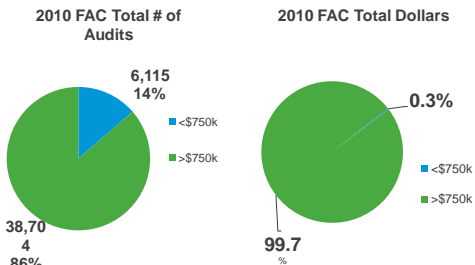
Summary of Proposal

- Streamlining of Related Circulars and Guidance
 - A-21, Cost Principles for Educational Institutions
 - A-50, Audit Follow-Up, related to Single Audit
 - A-87, Cost Principles for State, Local, and Indian Tribal Governments
 - A-89, Federal Domestic Assistance Program Information
 - A-102, Awards and Cooperative Agreements with State and Local Governments
 - A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
 - A-122, Cost Principles for Non-Profit Organizations
 - A-133, Audits of States, Local Governments and Non-Profit Organizations



Impact of Threshold

Increase audit threshold from \$500,000 to \$750,000



Type A Threshold

- Groupings are based on dollars — Type A programs are those above the dollar threshold, Type B are those below
 - The minimum threshold is increased from \$300,000 to \$500,000.

If total federal awards expended is:	Then Type A programs are those with federal awards expended of the greater of
\$1 million to \$100 million	\$500,000 or 3% (.03) of total awards expended
\$100 million to \$10 billion	\$3 million or .3% (.003) of total awards expended
\$10 billion or more	\$30 million or .15% (.0015) of total awards expended



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Large Loan Programs

- Proposal incorporates the guidance on the inclusion or exclusion of large loan or loan guarantee programs in determining the Type A threshold that is currently in the Compliance Supplement
- Proposal modifies the guidance related to a cluster of programs
 - A cluster of programs is treated as one program in determining Type A programs. For the purposes of excluding large loan programs in the determination of other Type A programs, a cluster of programs is not considered to be a loan program if the individual loan programs within the cluster comprise less than 50% of the expenditures of the cluster.



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High-Risk Type A Programs

Current default criteria:

- Not audited as a major program in 1 of 2 most recent audit periods
- In most recent period, had any of the following for program:
 - Significant deficiency in internal control
 - Material noncompliance finding
- Has ARRA expenditures in current year
- Written request by federal awarding agency to audit as major (180 days notice)

Proposed default criteria:

- Not audited as a major program in 1 of 2 most recent audit periods
- In most recent period, had any of the following for program:
 - Other than an unqualified opinion
 - Material weakness in internal control
 - Known or likely questioned costs that exceed 5% of the total expenditures of the program
- Written request by federal awarding agency to audit as major (180 days notice)



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High-Risk Type A Programs (continued)

- Currently, if none of default criteria met, auditors use professional judgment of listed risk factors to determine if Type A program is considered low or high risk
- The proposal is less clear as to whether the auditors continue to use professional judgment although there is a reference to the risk factors

High-Risk Type B Programs

- | | |
|--|--|
| <p>Current:</p> <ul style="list-style-type: none"> ▪ Currently there are two Type B risk assessment options: <ul style="list-style-type: none"> - Option 1 – Perform risk assessments on all Type B programs* and select one half of Type B programs identified as high risk up to number of low-risk Type A programs - Option 2 – Perform risk assessments on all Type B programs* until as many high-risk Type B programs have been identified as there are low-risk Type A programs - * subject to de minimis threshold | <p>Proposed:</p> <ul style="list-style-type: none"> ▪ Perform risk assessments on Type B programs* until high-risk Type B programs have been identified up to 25% of low-risk Type A programs <ul style="list-style-type: none"> - * subject to de minimis threshold |
|--|--|

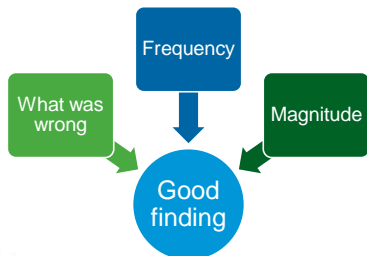
Percentage of Coverage Requirement

- The proposal reduces the minimum coverage required as follows:

Type of Auditee	Current	Proposed
Not Low Risk	50%	40%
Low Risk	25%	20%

Finding Reminders

- Tell the whole story:



OMB Cost Principles – Consolidation

- Consolidate cost principles into single document with:
 - OMB Circular A-21 – Educational Institutions
 - OMB Circular A-87 – Governments
 - OMB Circular A-122 – Nonprofit Organizations
- Health and Human Services at 45 CFR Part 74 Appendix E – Hospitals was not incorporated in the proposal
 - OMB will conduct further review of the cost principles for hospitals and make a future determination about the extent to which they should be added to this guidance

Administrative Requirements for Recipients

- Proposal consolidates administrative requirements of OMB Circulars A-102 and A-110 into a uniform set of administrative requirements for all grant recipients
 - Basis appears to be A-110 except for procurement which aligns with A-102
- Proposal clarifies federal expectations for pass-through entities
 - Consolidates and clarifies subrecipient monitoring
 - Indicates that all subawards shall include a provision for indirect costs
 - Either negotiated or a de minimis rate of 10%

Proposed Federal Agency Requirements

- Make all solicitations available for application for at least 30 days unless required by statute or unless exigent circumstances dictate otherwise
- Consider risk (financial stability, management systems and history of performance) associated with each applicant prior to making award
 - Risk assessment may impact terms and conditions
- Designate "single audit accountable official" to oversee single audit process
 - Separate from single audit coordinator

Audit Revisions – AICPA Comments

- Letter issued June 2, 2013
- Input received from:
 - GAQC Executive Committee and other volunteer committees
 - GAQC members, broader AICPA membership, state societies
- Overall, expressed support and appreciation for consideration of AICPA comments on previous Advance Notice
- However, letter still included a large number of comments
- Letter broken down by significant comments, overarching observations, other comments (nits), and editorial suggestions
- [Access AICPA letter](#)

Audit Revisions – AICPA Significant Comments

- Effective Date
- Due Process of Overhauled Compliance Supplement
- Audit Documentation Requirement
- Federal Capacity Concerns, Need for Coordination, and Knowledge of Auditing Critical
- Reduction in Compliance Requirements May Not be Realized Without Strong OMB Oversight
- Management Decision Guidance
- Rationale for Certain Procurement Changes Unclear
- Cost Principle Revisions and Indirect Cost Guidance Difficult to Follow
- Time and Effort Reporting to Cause Audit Challenges

Audit Revisions – AICPA Overarching Observations

- Applicability to For-Profit Organizations
- Audit Threshold
- Reduction in Audit Burden May Not be Realized by Some Auditees
- Program-Specific Audits
- Series of Audits Option May be Used More Frequently
- Percentage of Coverage Revisions May Not Reduce Burden
- Guidance on Stub Periods Should be Considered

Audit Revisions – AICPA Overarching Observations

- OMB Should Explore a Means to Communicate Important Information Through the OMB Web Site and the Compliance Supplement
- Other Compliance Supplement Enhancements Would be Useful to Auditors
- Unlocked Electronic Filing Submissions
- Federal Agency Monitoring and Oversight Should Continue to be an Emphasis Area
- Continued Problems with the Catalog of Federal Domestic Assistance Need to be Addressed
- Baseline Metrics for Follow-Up
- Subrecipient Monitoring

Audit Revisions – A Sampling of AICPA Other Comments

- Contractors versus Vendors
- Basis for Determining Federal Awards Expended
- More clarity on loan and loan guarantees
- SEFA presentation versus notes to the SEFA
- Clarify whether GAAP reporting is required
- Audit findings follow-up
- Threshold for audit findings
- New finding element for statistical sampling
- High-Risk Type A Determination Process
- First-Year Audit Exception Should be Retained
- Quality Control Reviews

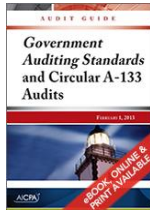


Other Important Matters Relevant to OMB Circular A-133 Audits



Other Important Matters Relevant to A-133 Audits

- Don't rely solely on CFDA Web site to determine the applicability of OMB Circular A-133 - errors are still being reported
- GAQC released updated "clarified" auditor's reports on [GAQC Web site](#)
 - Yellow Book reports
 - Circular A-133 reports
- [AICPA GAS-A133 Guide Now Available](#)
 - Updated for new Yellow Book
 - Updated for clarity auditing standards



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Other Important Matters Relevant to A-133 Audits

- Common Audit Deficiencies
 - Missed Major Programs
 - Documentation of Internal Control Over Compliance Understanding
 - Testing and Documentation of Compliance Testing
 - Sampling Adequacy and Documentation
 - Schedule of Expenditures of Federal Awards (SEFA) Issues



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Questions ?????





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