

APPENDIX VII OTHER AUDIT ADVISORIES

I. Effect of Implementation of the Uniform Guidance on Major Program Determination

The Uniform Guidance revised step two of the major program determination process by modifying several of the criteria auditors consider when determining whether a Type A program is low risk. For example, under the Uniform Guidance, a Type A program with a significant deficiency could be considered low risk the following year; under OMB Circular A-133, a significant deficiency would have caused a program not to be low risk the following year. These changes to the criteria likely will increase the number of Type A programs that are identified by the auditor as low risk each year as compared to the previous OMB Circular A-133 audit requirements.

A transition issue has been identified surrounding the above-described change that may significantly increase audit burden for some non-Federal entities in the third year after implementing the Uniform Guidance audit requirements (for example, December 31, 2017, year-ends, and other year-ends in 2018). Because of the increase in the number of low-risk Type A programs in the first and second year of implementing the Uniform Guidance audit requirements, the number of major programs may significantly increase in the third year. This is because the low-risk Type A programs that were last audited when OMB Circular A-133 was effective will have to be audited as major programs in the third year since they would not have been audited as a major program in at least one of the two most recent audit periods (i.e., the 2-year lookback rule).

Therefore, during the first 3 years of implementation (starting with fiscal years beginning on or after December 26, 2014), to avoid a spike in the demand for audit services every third year after implementation, auditors may audit some low-risk Type A programs as additional major programs in the first and second years of implementation before they are determined not to be low risk because of the 2-year lookback rule, which would otherwise require them to be audited as major programs in the third year of implementation. However, a low-risk Type A program would not be permitted to be audited more than once in the first 3 years of implementing the Uniform Guidance's audit requirements. There would be no change to the application of any steps in the major program determination process and any low-risk Type A programs selected for early major program treatment would be in addition to major programs required to be tested using the four-step approach, as addressed in section 2 CFR section 200.518 of the Uniform Guidance.

The rationale for this exception is that step four of the major program determination process (see 2 CFR section 200.518(e)) states that the programs required to be audited as major programs are “[a]t a minimum.” Smoothing the audit of low-risk Type A programs during the first 3 years of implementation would not result in additional costs overall and, therefore, the costs associated with auditing these low-risk Type A programs in advance would be allowable. In addition, this method would allow for a more balanced workload in the initial years of implementation, which will help ensure audit quality because of a more consistent approach for budgeting and determining staffing resources.

II. Effect of Changes to Compliance Requirements

In any instance in which a compliance requirement has been removed from a program/cluster, as shown in the Part 2 matrix, if there was an audit finding related to that compliance requirement in an audit conducted using the prior year's Supplement, that finding(s) must continue to be reported in the summary schedule of prior audit findings and considered in the major program determination under 2 CFR section 200.518. In any instance in which a compliance requirement was added to a program/cluster in the current year's Supplement, auditors are not expected to have tested for that requirement under the prior year's audit. This includes correction of an error, e.g., changing from shaded (or blank) to "Yes."

III. American Recovery and Reinvestment Act

Auditor Identification of ARRA Findings

The audit finding detail, as described in 2 CFR section 200.516(b)(1), is required to include Federal program and specific Federal award identification, including the CFDA title and number. The auditor must include in the audit finding detail explicit identification of applicable ARRA programs.

Removal of ARRA Programs from Supplement

Many of the ARRA programs have been deleted from Parts 4 and 5 of this Supplement based on their completion or limited amount of funds still subject to audit. However, if an entity has Federal awards expended from these programs they would be treated consistent with any other programs not included in this Supplement or not part of a cluster of programs. For example, if programs were deleted from a cluster: (1) the program would not be considered as part of a cluster for periods covered by this Supplement, as this Supplement does not include the program in a cluster, and (2) if the program was part of a cluster which was audited as a major program in a prior year, the normal 2 CFR part 200, subpart F, major program selection criteria and risk-based approach would apply and the program would be considered as audited in that prior year for purposes of major program determination, including consideration of any audit findings.

ARRA-Funded Programs 2 CFR Part 200, Subpart F

The following ARRA-funded programs are not covered by the single audit requirements and are not required to be included in the determination of major programs.

Department of the Treasury

- ARRA section 1602: Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Tax Credit (no CFDA number)
- ARRA section 1603: Payments for Specified Energy Property in Lieu of Tax Credits (no CFDA number)
- Build America Bonds (no CFDA number)

Department of Education

- Qualified School Construction Bonds (no CFDA number)

IV. Due Date for Audit Reports and Low-Risk Auditee Criteria

As provided in 2 CFR part 200, subpart F (2 CFR section 200.520), in order to meet the criteria for a low-risk auditee in the current year, the two prior years' audits must have met the specified criteria, including report submission to the Federal Audit Clearinghouse (FAC) by the due date.

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 (audit periods under OMB Circular A-133) or \$750,000 or more (audit periods under 2 CFR part 200, subpart F), as applicable, in the prior two audit periods and, therefore, was required to have an audit under the circular/uniform guidance and file with the FAC.
2. If the entity was below the \$500,000/\$750,000 threshold in either of the prior two audit periods, and an audit was not required under the circular/uniform guidance, 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 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, 2014, the audit report would be due March 31, 2015.
 - b. Access the FAC web page at <https://harvester.census.gov/facweb>
 - c. Select the "Find Audit Information" option and using the "Search for A-133 Results – General Information" option for the audit year in question, locate the FAC record for the entity. Verify correct record by comparing both the entity name and EIN number from the entity's copy of the SF-SAC to the FAC web page.
 - d. For this record, located on the FAC web page, compare the "FAC Accepted Date" to the Nine Month Due Date to determine if the due date was met.
 - (1) OMB granted an extension for all FY 2014 audit packages due on or before November 30, 2014, until November 30, 2014.

- (2) Because of the unavailability of the FAC, OMB granted an extension to February 1, 2016 for audit submissions that were due to be submitted to the FAC between July 22, 2015 and January 31, 2016. These extensions were automatic and no approval was required. Audits with due dates between July 22, 2015 and January 31, 2016 that are completed and submitted with a “FAC Accepted Date” on or before the February 1, 2016 extended due date will be considered to be in compliance with the Nine Month Due Date auditee low-risk criterion.
- (3) Auditees whose audits were performed under 2 CFR part 200, subpart F, will be unable to submit the Form SF-SAC and their reporting package to the FAC until late Spring 2016 (after a new Form SF-SAC is issued). Therefore, audit submissions based on 2 CFR part 200, subpart F, that are due prior to July 31, 2016, are now due to the FAC on July 31, 2016. This extension applies only to the actual submission to the FAC. The audit itself must be completed and reports issued within the timeframe specified in 2 CFR part 200, subpart F.

If the entity was not in compliance with the Nine Month Due Date or Extended Due Date (if applicable) or did not submit the required audit to the FAC for either of the prior two audit periods, then the entity does not qualify as a low-risk auditee.

4. 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 report submission as complete.

V. Treatment of National Science Foundation and National Institutes of Health Awards

National Science Foundation

Effective for proposals due on or after January 14, 2013, all awards issued by the National Science Foundation (NSF) meet the definition of “Research and Development” at 2 CFR section 200.87. As such, auditees must identify NSF awards as part of the R&D cluster on the Schedule of Expenditures of Federal Awards (SEFA) and the auditor must use the Research and Development cluster in Part 5 when testing any of those awards. NSF recognizes that some awards may have another classification for purposes of reimbursement of indirect costs. The auditor is not required to report this difference in treatment (i.e., the award is classified as R&D for 2 CFR part 200, subpart F purposes, but non-research for indirect cost rate purposes), unless the auditee is charging indirect costs at a rate other than the rate(s) specified in the award document(s).

There will be a transition period (probably 4 years) where SEFAs will include both awards funded previous to this change in approach and awards made subsequent to it. Previously funded awards may be identified on the SEFA at the university’s discretion, but awards resulting from proposals due on or after January 14, 2013 must be included in the SEFA as part of the R&D cluster. This guidance complies with the NSF Proposal and Award Policies and Procedures

Guide (PAPPG), the current and prior versions of which may be found at <http://www.nsf.gov/bfa/dias/policy/>.

National Institutes of Health

Effective for grants and cooperative agreements with budget periods beginning on or after December 26, 2014 and awards that receive supplemental funding on or after December 26, 2014, all awards issued by the National Institutes of Health (NIH) meet the definition of “Research and Development” at 45 CFR section 75.2. As such, auditees must identify NIH awards as part of the R&D cluster on the Schedule of Expenditures of Federal Awards (SEFA), and the auditor must use the Research and Development cluster in Part 5 when testing any of those awards. NIH recognizes that some awards may have another classification for purposes of reimbursement of indirect costs. The auditor is not required to report this disconnect (i.e., the award is classified as R&D for 2 CFR part 200, subpart F, purposes, but non-research for indirect cost rate purposes), unless the auditee is charging indirect costs at a rate other than the rate(s) specified in the award document(s). (See the NIH Grants Policy Statement, the current and prior versions of which may be found at <http://grants.nih.gov/grants/policy/policy.htm>.)

VI. OMB-Approved Exceptions to the Guidance in 2 CFR Part 200

As part of each department or agency’s adoption or implementation of the OMB guidance in 2 CFR part 200, the organization was able to request needed exceptions. Most departments and agencies requested such exceptions. The listing and text of the exceptions that were approved as part of the December 19, 2014 interim final rulemaking is available at <https://cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. Although OMB does not have a comparable listing for any exceptions requested through the agencies’ subsequent rulemakings, the preambles to those rulemakings, the dates of which are specified in Appendix II to the Supplement, indicate if there are changes from the December 19, 2014 rulemaking, including additional exceptions.

Following by organization is a listing of the affected sections (all reference are to 2 CFR, e.g., 2 CFR part 700, 2 CFR part 910, unless otherwise indicated) as of December 19, 2014 (**Note:** the listing posted at the Council on Financial Assistance Reform website for which the link is provided above provides a direct link to the affected sections):

Agency for International Development

700.3 - Applicability

700.4 - Exceptions

700.8 - Payment

700.9 – Property Standards

700.12 – Contract Provisions

Corporation for National and Community Service

2205.201 – Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts

2205.306 – Cost sharing or matching

2205.332 – Fixed amount subawards

2205.414 – Indirect (F&A) costs

Department of Agriculture

415.1 – Competition in the awarding of competitive grants and cooperative agreements

416.1 – Special Procurement Provisions

Department of Defense

1103.100 – Applicability of 2 CFR part 200 to requirements for recipients in DoD Components' terms and conditions

1103.200 – Exception for small awards

1103.205 – Timing of payments made using the reimbursement method

1103.210 – Management of federally owned property for which a recipient is accountable

1103.215 – Intangible property developed or produced under an award or subaward

1103.220 – Debarment and suspension requirements related to recipients' procurements

1103.225 – Debt collection

Department of Education

3474.5 – How exceptions are made to 2 CFR part 200

3474.10 – Clarification regarding 2 CFR 200.207

Department of Energy

910.122 - Applicability

910.130 – Cost sharing (EPACT)

910.354 - Payment

910.356 - Audits

Department of Health and Human Services

The HHS implementation of 2 CFR part 200 has numerous variations from the OMB guidance. The preamble to the December 19, 2014 *Federal Register* notice (pages 75875-75876) specifies the nature of the changes from, and additions to, 2 CFR part 200 included in the HHS regulations at 45 CFR part 75 (<http://www.gpo.gov/fdsys/pkg/FR-2014-12-19/pdf/2014-28697.pdf>)

Department of the Interior

1402.101 – To who does this part apply?

1402.102 – Do DOI financial assistance policies include any exceptions to 2 CFR 200?

Department of Justice

2800.313 – Equipment

2800.314 – Supplies

Department of Labor

2900.1 – Budget

2900.2 – Non-federal entity

2900.3 – Questioned cost

2900.4 – Adoption of 2 CFR Part 200

2900.5 – Federal awarding agency review of merit of proposals

2900.6 – Advance Payment

2900.7 – Payment

2900.8 – Cost sharing or matching

2900.9 – Revision of budget and program plans

2900.10 - Prior approval requests

2900.11 – Revision of budget and program plans including extension of the period of performance

2900.12 – Revision of budget and program plans approval from Grants Officers

2900.13 – Intangible property

2900.14 – Financial reporting

2900.15 – Closeout

2900.16 – Prior written approval (prior approval)

2900.17 – Adjustment of negotiated IDC rates

2900.18 – Contingency provisions

2900.19 – Student activity costs

2900.20 – Federal Agency Audit Responsibilities

2900.21 – Management decision

Department of State

600.101 – Applicability

600.315 – Intangible property

600.407 – Prior written approval (prior approval)

Department of Transportation

1201.80 – Program income

1201.206 – Standard application requirements

1201.313 – Equipment

1201.317 – Procurements by States

1201.327 – Financial reporting

Department of the Treasury

1000.306 – Cost sharing or matching

1000.336 – Access to records

Environmental Protection Agency

1500.2 – Applicability

1500.3 – Exceptions

1500.5 – Fixed Amount Awards

1500.6 – Retention requirements for records

1500.7 – Program income

1500.8 – Revision of budget and program plans

1500.9 – General Procurement Standards

1500.10 – Use of the same architect or engineer during construction

National Aeronautics and Space Administration

1800.3 – Applicability

1800.315 – Intangible property

National Archives and Records Administration

2600.101 – Indirect costs exception to 2 CFR 200.414

National Science Foundation

See <http://www.nsf.gov/pubs/policydocs/pappguide/nsf15001/sigchanges.jsp>

Small Business Administration

2701.74 – Pass-through entity

2701.92 – Subaward

2701.93 – Subrecipient

2701.414 – Indirect (F&A) Costs

2701.503 – Relation to other audit requirements

VII. 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 <https://www.ignet.gov/sites/default/files/files/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 (the audit requirements in effect at the time of the report). Auditors are encouraged to review this report and related updates issued by the American Institute of Certified Public Accountants to ensure compliance with the audit requirements of 2 CFR part 200, subpart F, and this Supplement.

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.