

## **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) and *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (April 3, 2009)) 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 the ARRA is available at [www.recovery.gov](http://www.recovery.gov).

The effects of the ARRA on audits under OMB Circular A-133 will increase significantly during calendar year 2009 as awards and expenditures under ARRA programs increase. For example, during the first audit periods using this Supplement (e.g., fiscal year ending June 30, 2009), the ARRA expenditures are expected to be significantly less than in later periods (e.g., fiscal years ending September 30, 2009 and beyond). Auditors should be alert to determine whether auditees (both recipients and subrecipients) have properly identified ARRA awards.

Due to the limited time between the enactment of the ARRA and the issuance of this Supplement, this Supplement has not been updated for revisions needed due to the ARRA. The following sections of this appendix highlight some areas of ARRA impacting audits under OMB Circular A-133. As additional information becomes available, OMB plans to issue addenda to this Supplement to provide additional guidance, as appropriate. Such addenda will include effective dates. Auditors performing OMB Circular A-133 audits should look first to this Appendix and then to the OMB Management website (<http://www.whitehouse.gov/omb/management>) under the heading of Grants Management for any addenda.

##### ***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.

### ***Clusters of Programs (Clusters)***

Many of the ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with the existing program. Therefore, OMB will need to update the clusters of programs as described in Part 5 of this Supplement. Any changes in clusters will be posted to the OMB Management website (<http://www.whitehouse.gov/omb/management>) under Grants Management as addenda to this Supplement. OMB plans to post these as of the end of each month beginning June 2009. The auditor is responsible for using the cluster list that matches the auditee's fiscal year end. For example, OMB plans to post an addendum for changes to clusters applicable to an audit of the fiscal period ending June 30, 2009, to be dated June 30, 2009, and posted on the OMB Management website under Grants Management by that date.

### ***Effect of Expenditures of ARRA Awards on Major Program Determination***

Due to the inherent risk with the new transparency and accountability requirements over expenditures of ARRA awards, the auditor should consider all Federal programs with expenditures of ARRA awards to be programs of higher risk in accordance with §\_\_\_.525(c)(2) and §\_\_\_.525(d) of OMB Circular A-133. Accordingly, when performing the risk-based approach under §\_\_\_.520(c)(1) of OMB Circular A-133, Type A programs with expenditures of ARRA awards should not be considered low-risk except when the auditor determines, and clearly documents the reasons, that the expenditures of ARRA awards is low-risk for the program.

Any cluster (i.e., Research and Development [R&D], Student Financial Assistance [SFA], or other cluster) to which a Federal program with a new ARRA CFDA number has been added should be considered a new program and would not qualify as a low-risk Type A program under §\_\_\_.520(c)(1) 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 the ARRA did not previously exist).

### ***Award Terms and Conditions and Compliance Requirements***

Federal agencies are responsible for identifying ARRA awards and the applicable requirements to the recipient. Normally this information will be in the award terms and conditions. Similarly, recipients are responsible for identifying ARRA awards and applicable requirements to their subrecipients. Due to the timing of the enactment of the ARRA and the issuance of this Supplement, compliance requirements unique to the ARRA are not included in this Supplement. Therefore, auditors should: (1) review the award documents, including the terms and conditions; (2) check the OMB Management website under Grants Management for any addenda to this Supplement, and (3) use the framework provided by this Supplement (e.g., in Parts 3, 4, 5, and 7) as guidance to identify ARRA compliance requirements material to the Federal program and determine the appropriate audit procedures.

One compliance requirement for which OMB expects to provide additional guidance is Reporting. Section 1512 Division A (which is applicable only to funding under ARRA Division A) imposes specific reporting requirements for ARRA awards under Division A. Per the OMB Updated Guidance (section 2.11); the first statutory reporting deadline will be for the quarter ending September 30, 2009, which is due to the Federal awarding agency by October 10, 2009. Recipients are required to report for themselves and their “first tier” subrecipients. (“First-tier” subrecipients are those that receive an award directly from a recipient.) Detailed reporting instructions will be made available at [www.FederalReporting.gov](http://www.FederalReporting.gov) no less than 45 days before the October 10, 2009 reporting deadline.

### ***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.

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. 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.