

OFFICE OF MANAGEMENT AND BUDGET

Audits of Institutions of Higher Education and Other Non-Profit Institutions

AGENCY: Office of Management and Budget.

ACTION: Proposed revisions to OMB Circular No. A-133.

SUMMARY: This Notice offers interested parties an opportunity to comment on proposed revisions to Office of Management and Budget (OMB) Circular No. A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions."

Also, this action provides notice of OMB's intent, after considering comments to this proposal, to seek modifications to the Single Audit Act of 1984 (Act) and OMB Circular No. A-128, "Audits of State and Local Governments," consistent with this proposed revision. OMB's intent is to obtain consistency between audits of State and local governments and non-profit organizations such that one law and one circular can cover both. This intent includes Indian tribal governments which are currently covered under the Act and OMB Circular No. A-128. Interested parties are encouraged to comment on this stated intent of OMB.

The National State Auditors Association issued a position paper on the single audit process in February 1993; the president's Council on Integrity and Efficiency Standards Subcommittee issued a study titled "Study on Improving the Single Audit Process" in September 1993; the General Accounting Office (GAO) issued a report titled "Single Audit: Refinements Can Improve Usefulness" in June 1994. The recommendations in these studies were considered in developing this proposed revision.

DATES: All comments on this proposal should be in writing, and must be received by May 16, 1995. Late comments will be considered to the extent practicable. Where possible, comments should reference applicable paragraph numbers in the proposed revision. To facilitate conversion of the comments into a computer format for analysis, respondents are asked to send a copy of comments on either a 3.5 or 5.25 inch diskette in either WordPerfect 5.1, WordPerfect for Windows, or ASCII format. When a diskette cannot be provided, it would be helpful if the comments were printed in pica or an equivalent 10 characters per inch type on white paper so the document can be

easily scanned into a computer format. When comments are sent in by facsimile, they should be followed up with a diskette or printed copy, as indicated above.

ADDRESSES: Office of Management and Budget, Office of Federal Financial Management, Financial Standards and Reporting Branch, Room 6025, New Executive Office Building, Washington, DC 20503. For a copy of the current Circular, contact Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503, or telephone (202) 395-7332.

FOR FURTHER INFORMATION CONTACT: Sheila O. Conley, Office of Federal Financial Management, Financial Standards and Reporting Branch, telephone (202) 395-3993 and fax (202) 395-4915. A redline/strikeout version showing the detailed changes between the current Circular and the proposed revision is available by written request to the Office of Federal Financial Management.

SUPPLEMENTARY INFORMATION: The proposed revision requires non-profit organizations receiving \$300,000 or more in a year in Federal awards to have an annual audit, sets forth requirements for both the performance and reporting of this audit, and provides for follow up on audit findings. Each non-profit organization is responsible for having its audit conducted and for reviewing audits of its subrecipients.

Significant Proposed Revisions

The substantive differences between the current Circular and the proposed revision are indicated in the following:

A. Increased Threshold for Audit

The threshold for when a non-profit organization is required to have an audit is proposed to be raised from \$25,000 to \$300,000 in paragraph 2, "Audit Requirements." This change is consistent with the findings and recommendations of the General Accounting Office's (GAO) single audit study that a threshold of \$300,000 would cover 95 percent of all direct Federal financial assistance to local governments. When the total Federal awards received are small, the cost of audits required by this Circular have often been high in proportion to the awards received. This change will remove the requirement for non-profit organizations to obtain an audit when the total Federal awards received are small. However, non-profit organizations will continue to be required to properly account for their Federal awards, comply with applicable

laws and regulations, and cooperate with any audits of Federal awards that the Federal Government may choose to perform. Respondents are encouraged to comment whether the proposed threshold for audit of \$300,000 is appropriate or whether the threshold for audit should be different and, if so, what threshold you recommend (e.g., \$500,000 or \$1 million).

To mitigate risk to a Federal program which is structured such that substantial service delivery and expenditure of Federal funds are made by subrecipients receiving less than \$300,000, paragraph 2 includes a provision to allow Federal agencies, with the approval of the Office of Management and Budget (OMB), to set appropriate audit requirements for these Federal programs awarded to subrecipients receiving less than \$300,000.

The primary objective of revising the Circular is to reduce regulatory burden on recipients of Federal awards, while maintaining an appropriate level of accountability over Federal awards. The proposed revision seeks to achieve this objective by raising the threshold for audit to \$300,000. However, OMB is also considering an additional approach to reduce audit burden whereby non-profit organizations meeting the criteria for low-risk auditees presented in Appendix 3 would be allowed, with the approval of the cognizant or oversight agency, to conduct a full-scope audit in accordance with this Circular on a triennial basis, which covers only the last year of the triennial period.

In the "off-years," or years in which a full-scope audit in accordance with this Circular is not required, a non-profit organization receiving \$300,000 or more in Federal awards would be required to have a financial statement audit conducted in accordance with generally accepted government auditing standards (GAGAS). In addition, the off-year audit would include such additional procedures necessary to comply with the scope of work described in subparagraph 12.c, "Internal Controls," of the proposed revision. If the results of audit work conducted in an off-year identify conditions that prevent the non-profit organization from meeting the criteria for a low-risk auditee, then a full-scope audit in accordance with this Circular would be required for the year in which the deficiencies occurred and subsequent years until the non-profit organization met the criteria in Appendix 3.

Respondents are encouraged to comment whether the triennial audit approach would achieve its intended

objective and could be feasibly implemented, particularly with respect to the application of a risk-based audit approach to determine major programs, described in the following section. Respondents are also encouraged to comment whether the triennial audit approach should be: (1) Implemented with the revised Circular, (2) phased in using pilot projects, or (3) applicable to non-profit organizations receiving more or less than a specified amount of Federal awards and, if so, what level of Federal awards you recommend (e.g., \$10,000,000).

B. New Risk-Based Approach To Determine Major Programs

A revised process for determining major programs is proposed in Appendices 1 and 2. Currently the determination of major programs, the programs which receive primary audit coverage under the Circular, is based solely on the dollar amount of a Federal program's expenditures. Under this proposal, major programs are determined based on a risk assessment considering prior audit experience, oversight performed by Federal agencies and others, and the inherent risk of the Federal program. Also, a provision is made to require Federal programs that in aggregate have expenditures that total at least 50 percent of total Federal program expenditures to be covered as major programs. This 50 percent minimum is reduced to 25 percent for non-profit organizations meeting the criteria in Appendix 3 and classified as low-risk auditees. Respondents are encouraged to comment whether the Circular should be revised to permit organizations that qualify as low-risk auditees to reduce the scope of audit below the 50 percent minimum and, if so, whether the proposed 25 percent minimum is appropriate for low-risk auditees.

The proposed risk-based approach requires the use of judgment by auditors in determining major programs. However, several controls are included in the revised Circular to mitigate the risk of insufficient audit coverage of Federal programs including:

(1) The requirement that Federal programs with aggregate expenditures of at least 50 percent of total Federal program expenditures be covered as major programs (25 percent for low-risk auditees);

(2) The provision that allows Federal agencies and pass-thru entities to require an auditee to have a particular Federal program audited as a major program in lieu of conducting or contracting for additional audits,

provided that the requesting agency agrees to pay the full incremental cost;

(3) The requirement that Federal programs with Federal expenditures exceeding three percent of total Federal expenditures or \$300,000, whichever is greater, (Type A programs) shall be covered as major programs at least once every three years; and

(4) The inclusion of a model or process for auditors to use to determine major programs is provided in Appendices 1 and 2.

The objective of this change to a risk-based approach is to focus the audit effort on areas of greatest risk of noncompliance, provide audit coverage to high-risk programs previously below the dollar threshold of major programs, and permit reduction of audit effort when previous audits have not shown problems. An alternative to this risk-based approach would be to continue using the current approach of determining major programs based solely on dollar amount of a Federal program's expenditures and implement voluntary pilot projects to test the risk-based approach. Respondents are encouraged to comment whether the risk-based approach should be implemented with the revised Circular or phased in using pilot projects.

C. Required Level of Internal Control Testing

Clarification is provided in paragraph 12, "Scope of Audit," that the level of testing the auditor is required to perform on the internal control structure over major programs is based upon the auditor's planning for a low assessed level of control risk. Respondents who are auditors are encouraged to comment and provide examples of how many transactions they are currently testing for major programs and how many transactions they would expect to test based upon the proposed revision.

D. Guidance on the Schedule of Federal Awards

Guidance is added in paragraph 13, "Financial Statements and Auditor's Reporting," on the minimum requirements for the Schedule of Federal Awards. Since GAO's single audit study recommended that OMB prescribe the form and content of the schedule, respondents are encouraged to comment whether the revised Circular should prescribe additional requirements for the schedule and a description of such additional requirements.

E. Attestation on Internal Controls and Compliance

GAO's single audit study recommended that, for entities receiving in excess of \$50 million a year in Federal awards, the entity should publicly report the extent to which the entity has in place internal controls over Federal awards and that the auditor should attest to the fairness of such a representation. Similarly, others have suggested to OMB that the work on compliance for Federal awards be an engagement under the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Attestation Engagements (SSAE) No. 3, "Compliance Attestation." Under a SSAE No. 3 engagement, management must perform an evaluation of the entity's compliance with the specified requirements and make an assertion about compliance. Respondents are encouraged to comment as to whether organization-wide and program-specific audits should require a management assertion and auditor attestation for internal controls and/or compliance. The proposed revision does not require a management assertion or auditor attestation on internal controls or compliance.

F. Modified Requirements Related to Audit Findings

The proposed revisions in paragraph 13, "Financial Statements and Auditor's Reporting," provide for reporting of audit findings related to Federal awards in a single schedule of findings and questioned costs, set thresholds for which audit findings will be included in the audit report, describe what information the auditor should include in an audit finding, and provide for audit follow-up on audit findings. Paragraph 14, "Audit Findings Follow-up," clarifies the non-profit organization's responsibility for follow-up on audit findings which includes preparing a corrective action plan for current audit findings and a summary schedule of prior audit findings. Paragraph 15, "Management Decision," provides guidance to improve the audit resolution process.

G. Other Modified Requirements and Guidance

The definition of non-profit organization in paragraph 1 is changed to include non-profit hospitals. However, under paragraph 3, "Basis for Determining Awards Received," Medicaid and Medicare are normally excluded from awards received. Paragraph 3 also provides guidance on

determining awards received for other types of Federal programs.

New guidance is added in paragraph 4, "Subrecipient and Vendor Determination," paragraph 5, "Auditee Responsibilities," paragraph 6, "Federal Agency and Pass-Thru Entity Responsibilities," and paragraph 18, "Program-Specific Audit."

Paragraph 6 makes provision for assignment of cognizant agencies based on dollar thresholds of awards received. Under this proposal, entities receiving more than \$25 million a year in Federal awards shall be assigned a cognizant agency based on which Federal agency provides the predominant amount of direct funding to the recipient. Currently OMB is responsible for assigning cognizant agencies and it has been unable to make the assignments in a timely manner.

The importance of the compliance supplement is enhanced in paragraph 6, "Federal Agency and Pass-Thru Entity Responsibilities," by requiring Federal agencies to designate a person responsible for annually informing OMB of updates needed, and in paragraph 12, "Scope of Audit," by clarifying the purpose and authority of the compliance supplement. Also, in paragraph 1, "Definitions," a provision is included for the compliance supplement to designate clusters of Federal programs which would be treated as one program.

In paragraph 11, "Auditor Selection," OMB is considering adding a restriction on auditor selection whereby an auditor who also prepares the indirect cost proposal, cost allocation plan, or the disclosure statement required by OMB Circular A-21, "Cost Principles for Educational Institutions," or the Cost Accounting Standards Board, as appropriate, may not be selected when the indirect costs charged are greater than five percent of expenditures of any one Type A program, as defined in Appendix 1, or greater than five percent of expenditures for all Federal programs. Respondents are encouraged to comment whether the auditor restriction should be included in the revised Circular. Also, current Circular paragraph 11, "Small and Minority Audit Firms," is deleted because these requirements are more fully covered in OMB Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations."

In paragraph 16, "Report Submission," the due date is shortened for submitting reports required by this Circular from 13 months to 9 months. However, the provision for a cognizant

or oversight agency to grant an extension is retained. Also, the report submission process was streamlined by providing for a certification form to be submitted in lieu of the full audit report when there are no audit findings, expanding the role of the central clearinghouse, and providing for the clearinghouse to pilot test electronic filing of reports. Under this expanded clearinghouse role, recipients will send all copies of reports to the clearinghouse which will subsequently distribute them to Federal agencies whose awards have audit findings.

Public Information Collection

The proposed revision includes a provision that will require the central clearinghouse designated by OMB to collect certain information about Federal awards and the audits of such awards. OMB is requesting comments on the proposed information collection described in paragraph 16, "Report Submission." The final collection requirement will be submitted to OMB for clearance in accordance with the Paperwork Reduction Act (44 U.S.C. Chapter 35).

John B. Arthur,

Associate Director for Administration.

Circular No. A-133—Revised

To the Heads of Executive Departments and Establishments

Subject: Audits of Non-Profit Organizations Receiving Federal Awards

1. *Purpose.* This Circular sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-profit organizations receiving Federal awards.

2. *Authority.* Circular A-133 is issued under the authority of sections 503 and 1111 of title 31, United States Code, and Executive Orders 8248 and 11541.

3. *Supersession.* This Circular supersedes the prior Circular A-133, issued March 8, 1990. For effective dates, see paragraph 10.

4. *Policy.* Except as provided herein, the standards set forth in this Circular shall be applied by all Federal agencies. If any statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the statute shall govern.

Federal agencies shall apply the provisions of the sections of this Circular to non-profit organizations, whether they are recipients receiving awards directly from Federal awarding agencies, or are subrecipients receiving awards from a pass-thru entity (a recipient or another subrecipient).

Therefore, whereas this Circular does not apply to grants, contracts, or other agreements between the Federal Government and units of State or local governments (which are covered by OMB Circular A-128, "Audits of State and Local Governments"), this Circular does apply to awards that State and local governments make to non-profit organizations covered by this Circular.

This Circular does not apply to non-U.S. based entities receiving Federal awards either directly as a recipient or indirectly as a subrecipient.

5. *Definitions.* Definitions of key terms used in this Circular are contained in paragraph 1 in the Attachment.

6. *Required Action.* The specific requirements and responsibilities of Federal agencies and non-profit organizations are set forth in the Attachment and Appendices to this Circular. Federal agencies making awards to non-profit organizations, either directly or indirectly, shall adopt the language in the Circular in codified regulations, unless different provisions are required by Federal statute or are approved by OMB.

7. *OMB Responsibilities.* OMB will review agency regulations and implementation of this Circular, and will provide interpretations of policy requirements and assistance to ensure effective and efficient implementation.

8. *Information Contact.* Further information concerning Circular A-133 may be obtained by contacting the Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, telephone (202) 395-3993. Individual copies of this Circular may be obtained by contacting the Executive Office of the President, Publications Office, telephone (202) 395-7332.

9. *Termination Review Date.* This Circular will have a policy review three years from the date of issuance.

10. *Effective Dates.* (a) The standards set forth in this Circular that apply directly to Federal agencies will be effective 30 days after publication of the final revision in the **Federal Register**.

(b) The standards set forth in this Circular that Federal agencies are to apply to non-profit organizations will be adopted by Federal agencies in codified regulations within six months after publication of the final revision in the **Federal Register**, so that they will apply to audits of non-profit organizations for fiscal years that begin on or after January 1, 1996.

(c) In the interim period, until the standards in this Circular are adopted and become applicable, the audit

provisions of Circular A-133 issued March 8, 1990, shall continue in effect. However, if a non-profit organization receives awards of more than one Federal agency, and not all such agencies have adopted the standards in this Circular in a timely fashion, then Federal agencies should permit the non-profit organization to comply with the standards in this Circular for all of its awards.

Alice M. Rivlin,
Director.

Attachment
Appendix 1
Appendix 2
Appendix 3

OMB Circular A-133—Audits of Non-Profit Organizations Receiving Federal Awards

Attachment

Table of Contents

1. Definitions
 2. Audit Requirements
 3. Basis for Determining Awards Received
 4. Subrecipient and Vendor Determination
 5. Auditee Responsibilities
 6. Federal Agency and Pass-Thru Entity Responsibilities
 7. Relation to Other Audit Requirements
 8. Frequency of Audit
 9. Sanctions
 10. Audit Costs
 11. Auditor Selection
 12. Scope of Audit
 13. Financial Statements and Auditor's Reporting
 14. Audit Findings Follow-up
 15. Management Decision
 16. Report Submission
 17. Audit Working Papers and Reports
 18. Program-Specific Audit
- Appendix 1—Major Program Determination
Appendix 2—Criteria for Risk
Appendix 3—Criteria for a Low-Risk Auditee

1. *Definitions.* For the purposes of this Circular, the following definitions apply:

a. *Auditee* means any non-profit organization receiving awards which must be audited under this Circular. This term includes both organizations which receive awards directly as a recipient or indirectly as a subrecipient.

b. *Auditor* means an auditor, that is a public accountant or a Federal, State or local government audit organization, which meets the general standards specified in generally accepted government auditing standards (GAGAS). The term "auditor" does not include internal auditors of non-profit organizations because they do not meet the GAGAS independence standards to report as external auditors.

c. *Audit finding* means deficiencies which the auditor is required by paragraph 13.d(1) to include in the

schedule of findings and questioned costs.

d. *Award* means Federal financial assistance and Federal cost-type contracts. It includes awards received directly from Federal awarding agencies or indirectly from recipients of Federal awards or subrecipients. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Audits of such vendors shall be covered by the terms and conditions of the contract.

e. *CFDA number* means the number assigned to a Federal program in the Catalog of Federal Domestic Assistance (CFDA).

f. *Cluster of programs* means Federal programs with different CFDA numbers that are defined as a cluster of programs in the compliance supplements because they are closely related programs and share common compliance requirements. A cluster of programs shall be considered as one program for determining major programs as described in Appendix 1 and whether a program-specific audit may be elected under paragraph 2.c.

g. *Cognizant agency* means the Federal agency assigned by the Office of Management and Budget (OMB) to carry out the responsibilities described in paragraph 6.a.

h. *Compliance supplements* refers to the Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Organizations and the Compliance Supplement for Single Audits of State and Local Governments or such documents as OMB may issue to replace them. These documents are available from the Government Printing Office, telephone (202) 783-3238.

i. *Corrective action* means action taken by the auditee that: (1) Corrects identified deficiencies, (2) produces recommended improvements, or (3) demonstrates that audit findings are either invalid or do not warrant auditee action.

j. *Federal agency* has the same meaning as the term "agency" in Section 551(1) of title 5, United States Code.

k. *Federal awarding agency* means the Federal agency that provides an award directly to the recipient.

l. *Federal financial assistance* means assistance provided by a Federal agency to a recipient or by a pass-thru entity to a subrecipient to carry out a program. Such assistance may be in the form of: Grants, cooperative agreements, donated surplus property, food commodities, loans, loan guarantees, property, interest subsidies, insurance, direct appropriations, and other assistance.

Such assistance does not include direct Federal cash assistance to individuals.

m. *Federal program* means:

(1) All Federal programs or awards under the same CFDA number. When no CFDA number is assigned, all awards from the same agency made for the same purpose may be combined. State governments may combine different awards to their subrecipients when the awards are closely related programs and share common compliance requirements. In this case, the State government may require the subrecipient to treat the combined awards as a single program.

A category of awards which is a group of awards in the categories of (a) research and development, (b) student financial aid, or (c) cluster of programs.

n. *GAGAS* means generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

o. *Generally accepted accounting principles* has the meaning specified in generally accepted auditing standards issued by the American Institute of Certified Public Accountants.

p. *Individual compliance requirements* refers to the types of compliance requirements as listed in the compliance supplements. Examples include cash management, Federal financial reporting, allowable costs/cost principles, types of services allowed or unallowed, eligibility, and matching.

q. *Internal control structure over Federal programs* means the policies and procedures established to provide reasonable assurance that the following objectives will be achieved:

(1) Transactions are executed in compliance with: (a) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program, and (b) any other laws and regulations that OMB has identified in the compliance supplements;

(2) Transactions are properly recorded and accounted for to: (a) Permit the preparation of reliable financial statements and Federal reports, (b) maintain accountability over assets, and (c) demonstrate compliance with laws, regulations, and other compliance requirements; and

(3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

r. *Loans* means Federal loans or loan guarantees received or administered by an auditee.

s. *Major program* means a Federal program determined by the auditor to be a major program in accordance with Appendix 1 or a program identified as

a major program by a Federal agency or pass-thru entity in accordance with paragraph 7.c.

t. *Management decision* means the evaluation by the Federal awarding agency or pass-thru entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

u. *Non-profit organization* means any corporation, trust, association, cooperative, or other organization which: (1) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; (2) is not organized primarily for profit; and, (3) uses its net proceeds to maintain, improve, and/or expand its operations. The term "non-profit organization" includes non-profit institutions of higher education and hospitals, except those that are audited as part of single audits in accordance with Circular A-128, "Audits of State and Local Governments."

v. *OMB* means the Executive Office of the President, Office of Management and Budget.

w. *Organization-wide audit* means an audit of a non-profit organization which includes both the organization-wide financial statements and the Federal awards as described in paragraph 12.

x. *Oversight agency* means the Federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency. When there is no direct funding, the Federal agency with the predominant indirect funding shall assume the oversight responsibilities. The duties of the oversight agency are described in paragraph 6.b.

y. *Pass-thru entity* means a non-profit organization that provides a Federal award to a subrecipient.

z. *Program-specific audit* means an audit of one Federal program as provided for in paragraphs 2.c and 18.

aa. *Questioned cost* means a cost that is questioned by the auditor because of:

(1) An audit finding, which occurred or is likely to have occurred, from a violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;

(2) An audit finding where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) An audit finding where the costs incurred are unreasonable and do not reflect the actions a prudent person would take in the circumstances.

bb. *Recipient* means a non-profit organization receiving awards directly

from a Federal awarding agency to carry out a Federal program.

cc. *Research and development (R&D)* means all research activities, both basic and applied, and all development activities that are performed by a non-profit organization. "Research" is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. "Development" is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

dd. *Student Financial Aid (SFA)* includes those programs of general student assistance in which a non-profit organization participates, such as those authorized by Title IV of the Higher Education Act of 1965, as amended, which is administered by the U.S. Department of Education and similar programs provided by other Federal agencies. It does not include programs which provide fellowships or similar awards to students on a competitive basis, or for specified studies or research.

ee. *Subrecipient* means the legal entity that receives an award from a pass-thru entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other awards directly from a Federal awarding agency. Guidance on distinguishing between a subrecipient and a vendor is provided in paragraph 4.

ff. *Vendor* means a dealer, distributor, merchant, or other seller providing goods or services to an addressee that are required for the conduct of a Federal program. These goods or services may be for a non-profit organization's own use or for the use of beneficiaries of the Federal program. Additional guidance on distinguishing between a subrecipient and a vendor is provided in paragraph 4.

2. Audit Requirements.

a. *Audit Required.* Non-profit organizations that receive \$300,000 or more in a year in awards shall have an organization-wide or program-specific audit conducted for that year in accordance with the provisions of this Circular.

b. *Organization-wide Audit.* Non-profit organizations that receive \$300,000 or more in a year in awards shall have an organization-wide audit in accordance with paragraph 12 except when they elect to have a program-specific audit in accordance with paragraph c.

c. *Program-Specific Audit Election.* When a non-profit organization receives awards under only one Federal program (excluding R&D) and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit of the non-profit organization, the non-profit organization may elect to have a program-specific audit conducted in accordance with paragraph 18. A program-specific audit may not be elected for R&D unless all awards are received from the same Federal agency, or the same Federal agency and the same pass-thru entity, and that Federal agency or pass-thru entity approves in advance a program-specific audit.

d. *Exemption When Awards Are Less Than \$300,000.* Non-profit organizations that receive less than \$300,000 a year in awards are exempt from Federal audit requirements for that year except as noted in paragraphs e and 7.a, but records must be available for review or audit by appropriate officials of the Federal awarding agency, pass-thru entity, and/or General Accounting Office (GAO).

e. *Special Provision for Certain Small Subrecipients.* When a Federal program is structured such that substantial service delivery and expenditure of Federal funds occur at subrecipients which receive awards of less than the \$300,000 threshold for audit, the Federal agency, with the approval of OMB, may require pass-thru entities to arrange for audits of such subrecipients that would otherwise be exempt from audit under paragraph d. Such audits may be of lesser scope than audits required by this Circular.

3. Basis for Determining Awards Received.

a. *Determining Awards Received.* The determination of when an award is received should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-profit organization to comply with laws, regulations, and the provisions of contracts or grant agreements such as: Expenditure/expense transactions associated with grants, cost-type contracts, cooperative agreements, and direct appropriations; the use of loan proceeds under loan programs; the receipt of property; the receipt of surplus property; the distribution or consumption of food

commodities; the disbursement of amounts entitling the non-profit organization to an interest subsidy; and, the period when insurance is in force.

b. *Loans and Loan Guarantees (Loans)*. Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of awards received under loan programs, except as noted in paragraphs c and d:

(1) Value of new loans made or received during the fiscal year; plus
(2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus

(3) Any interest subsidy or administrative costs allowance received.

c. *Loans and Loan Guarantees (Loans) at Institutions of Higher Education*.

When loans are made to students of an institution of higher education but the institution does not make the loans, then only the value of loans made during the year shall be considered awards received in that year. The balance of loans for previous years is not included as awards received because the lender accounts for the prior balances.

d. *Prior Loans and Loan Guarantees (Loans)*. Loans, the proceeds of which were received and expended in prior-years, are not considered awards under this Circular when the laws, regulations, and the provisions of contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

e. *Free Rent*. Free rent received by itself is not considered an award under this Circular. However, free rent received as part of an award to carry out a Federal program shall be considered an award and subject to audit under this Circular.

f. *Valuing Non-cash Assistance*. Federal non-cash assistance, such as free rent, food stamps, food commodities, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency.

g. *Medicare*. Medicare payments to a non-profit organization for providing patient care services to Medicare eligible individuals are not considered awards under this Circular.

h. *Medicaid*. Medicaid payments to a non-profit organization for providing patient care services to Medicaid eligible individuals are not considered awards under this Circular unless a State requires the funds to be treated as awards because reimbursement is on a cost-type basis.

4. *Subrecipient and Vendor Determination*.

a. *General*. An auditee may be a recipient, a subrecipient, and a vendor. The awards received as a recipient or a subrecipient would be subject to audit under this Circular. The payments received for goods or services provided by a vendor would not be considered Federal awards. The guidance in paragraphs b and c should be considered in determining whether payments constitute an award to a subrecipient or a payment for goods and services to a vendor.

b. *Subrecipient*. Characteristics indicative of a subrecipient include:

(1) Determining who is eligible to receive what Federal financial assistance;

(2) Performance measured against meeting the objectives of the Federal program;

(3) Responsibility for programmatic decision making;

(4) Responsibility for applicable Federal program compliance requirements; and

(5) Use of funds to carry out a program of the subrecipient as compared to providing goods or services for a program of the pass-thru entity.

c. *Vendor*. Characteristics indicative of a vendor include:

(1) Providing goods and services within normal business operations;

(2) Providing similar goods or services to many different purchasers;

(3) Operating in a competitive environment;

(4) Having compliance requirements that do not pertain to the goods or services provided; and

(5) Providing goods or services that are ancillary to the operation of the Federal program.

d. *Use of Judgment in Making Determination*. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.

e. *For-profit Subrecipient*. Since this Circular does not apply to for-profit subrecipients, the pass-thru entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance

responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

f. *Compliance Responsibility for Vendors*. In most cases, the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for compliance or the vendor's records must be reviewed to determine compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements.

5. *Auditee Responsibilities*. The auditee shall:

a. Identify, in its accounts, all awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-thru entity.

b. Maintain an internal control structure over Federal programs that provides reasonable assurance that the auditee is managing awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

c. Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

d. Prepare appropriate financial statements, including the schedule of Federal awards.

e. Ensure that the audits required by this Circular are properly performed and submitted when due.

f. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with paragraphs 14.b and 14.c, respectively.

6. *Federal Agency and Pass-Thru Entity Responsibilities*.

a. *Cognizant Agency Responsibilities*. Recipients receiving more than \$25 million a year in Federal awards shall have a cognizant agency. The assigned cognizant agency shall be the Federal awarding agency that provides the

predominant amount of direct funding to a recipient unless OMB makes a specific cognizant agency assignment and provides notice in the **Federal Register**. To provide for continuity of cognizance, the determination of the predominant amount of direct funding shall be based upon direct Federal awards received in the recipient's fiscal years ending in 1990, 1995, 2000, and every fifth year thereafter. A Federal awarding agency assigned cognizance may reassign cognizance to another Federal awarding agency which provides substantial direct funding and agrees to be the cognizant agency. Within 30 days after any reassignment, both the old and the new cognizant agency shall notify the auditee, and, if known, the auditor of the reassignment. The cognizant agency shall:

(1) Provide technical audit advice and liaison to auditees and auditors.

(2) Consider auditee requests for extensions to the nine month due date of the reporting package required by paragraph 16a. The cognizant agency may grant extensions for good cause.

(3) Obtain or conduct quality control reviews of selected audits made by non-Federal auditors, and provide the results, when appropriate, to other interested organizations.

(4) Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any direct reporting by the auditee or auditor of irregularities or illegal acts, as required by GAGAS or laws and regulations, when such reporting is not included in the reporting package described in paragraph 16.c.

(5) Advise the auditor and the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency shall notify the auditor, the auditee, Federal awarding agencies, and the pass-thru entity of the facts and make recommendations for follow-up action. Major inadequacies or repetitive substandard performance by auditors shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action.

(6) Coordinate, to the extent practicable, audits or reviews made by or for Federal agencies that are in addition to the audits made pursuant to this Circular, so that the additional audits or reviews build upon audits performed in accordance with this Circular.

(7) Coordinate a management decision for audit findings that affect the Federal programs of more than one agency.

(8) Help coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.

b. *Oversight Agency Responsibilities.* An auditee not assigned a cognizant agency will be under the general oversight of the Federal agency providing it the predominant amount of direct funding as discussed in paragraph 1.x. The oversight agency:

(1) Shall provide technical advice and counsel to auditees and auditors as requested.

(2) May assume all or some of the responsibilities normally performed by a cognizant agency.

c. *Federal Awarding Agency Responsibilities.* The Federal awarding agency shall perform the following for the awards it makes:

(1) Identify awards made by informing each recipient of the CFDA title and number, award name and number, and award year. When some of this information is not available, the Federal agency shall provide information necessary to clearly describe the Federal award.

(2) Ensure that audits are made and reports are received in a timely manner and in accordance with the requirements of this Circular.

(3) Provide technical advice and counsel to auditees and auditors as requested.

(4) Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

(5) Assign a person responsible to inform OMB annually of any updates needed to the compliance supplements.

d. *Pass-Thru Entity Responsibilities.* A pass-thru entity that receives a Federal award and passes all or part of it through to subrecipients shall perform the following for the awards it makes:

(1) Identify awards made by informing each subrecipient of CFDA title and number, award name and number, award year, and name of Federal agency. When some of this information is not available, the pass-thru entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-thru entity.

(3) Monitor the activities of subrecipients as necessary to ensure that

awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that non-profit subrecipients receiving \$300,000 or more in awards during the subrecipient's fiscal year have met the audit requirements of this Circular for that fiscal year, and that subrecipients subject to Circular A-128 have met the requirements of that Circular.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-thru entity's own records.

(7) Require each subrecipient to permit auditors to have access to the records and financial statements as necessary for the pass-thru entity to comply with this Circular.

7. *Relation to Other Audit Requirements.*

a. *Audit Under This Circular in Lieu of Other Audits.* An audit made in accordance with this Circular shall be in lieu of any financial audit required under individual awards. To the extent this audit meets a Federal agency's needs, it shall rely upon and use such audits. The provisions of this Circular neither limit the authority of Federal agencies, their inspectors general, or GAO to conduct or contract for additional audits (e.g., financial audits, performance audits, evaluations, inspections, or reviews) nor authorize any auditee to constrain Federal agencies from carrying out additional audits. Any additional audits shall be planned and performed in such a way as to build upon work performed by other auditors.

b. *Federal Agency to Pay for Additional Audits.* A Federal agency that conducts or contracts for additional audits shall, consistent with other applicable laws and regulations, arrange for funding the cost of such additional audits.

c. *Federal Agency Determination of Major Programs.* A Federal agency may request an auditee to have a particular Federal program audited as a major program in lieu of the Federal agency conducting or contracting for the additional audits. To allow for planning, such requests should be made at least 180 days prior to the end of the applicable audit period. The auditee should promptly respond to such request by informing the Federal agency whether the program would otherwise

be audited as a major program and, if not, the estimated incremental cost. The Federal agency shall then promptly confirm to the auditee whether it wants the program audited as a major program. If the program is to be audited as a major program based upon this Federal agency request, and the Federal agency agrees to pay the full incremental costs, then the auditee shall have the program audited as a major program. Since the Federal program audited as a result of this request would not otherwise have been audited as a major program, the expenditures of this Federal program shall not be included in the numerator of the calculation to determine whether the requirements of the 50 percent rule described in Appendix 1 were met. A pass-thru entity may use the provisions of this paragraph for a subrecipient.

8. *Frequency of Audit.* Audits required by this Circular shall be performed annually. However, a Federal agency or pass-thru entity may allow an auditee who elects a program-specific audit under paragraph 2.c to perform the audit every two years. Two-year audits must cover both years.

9. *Sanctions.* No audit costs may be charged to Federal awards when audits required by this Circular have not been made or have been made but not in accordance with this Circular. In cases of continued inability or unwillingness to have an audit conducted in accordance with this Circular, Federal agencies and pass-thru entities shall take appropriate sanctions such as:

- a. Withholding a percentage of awards until the audit is completed satisfactorily;
- b. Withholding or disallowing overhead costs;
- c. Suspending awards until the audit is conducted; or
- d. Terminating the award.

10. *Audit Costs.* Unless prohibited by law, the cost of audits made in accordance with the provisions of this Circular are allowable charges to awards. The charges may be considered a direct cost or an allocated indirect cost, determined in accordance with the provisions of Circular A-21, "Cost Principles for Educational Institutions," Circular A-122, "Cost Principles for Non-Profit Organizations," Federal Acquisition Regulations subpart 31, or other applicable cost principles or regulations.

11. *Auditor Selection.* In arranging for audit services, auditees shall follow the procurement standards prescribed by Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations." In requesting proposals

for audit services, the objectives and scope of the audit should be made clear. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price.

12. *Scope of Audit.*

a. *General.* The audit shall be conducted in accordance with GAGAS.

b. *Financial Statements.* The auditor shall determine whether the financial statements of the auditee present fairly the auditee's financial position, results of operations, and, where appropriate, the cash flows in conformity with generally accepted accounting principles. The auditor shall also determine whether the schedule of Federal awards is fairly presented in all material respects in relation to the auditee's financial statements taken as a whole.

c. *Internal Controls.*

(1) In addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of the internal control structure over Federal programs sufficient to plan the audit to achieve a low assessed level of control risk for major programs.

(2) Except as provided in paragraph (3), the auditor shall:

(a) Plan the testing of the internal control structure over major programs to achieve a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program.

(b) Perform testing of the internal control structure over major programs as planned in paragraph (a).

(3) When the internal control structure over major programs is likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraphs (2)(a) and (2)(b) are not required. However, the auditor shall report a reportable condition or a material weakness in accordance with paragraph 13.d, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of the ineffective internal control structure over major programs.

d. *Compliance.*

(1) In addition to the requirements of GAGAS, the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

(2) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance for each major program.

(3) The principal compliance requirements of the largest Federal programs are included in the compliance supplements.

(4) For Federal programs contained in the compliance supplements, an audit of the compliance requirements contained in the compliance supplements will meet the requirements of this Circular. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplements, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly. For those Federal programs not covered in the compliance supplement, the auditor should use the elements of compliance (e.g., allowability of cost, types of services, eligibility) contained in the compliance supplements as guidance for identifying the individual compliance requirements to test, and determine the requirements governing the Federal program by reviewing the applicable laws, regulations, and the provisions of contracts or grant agreements. The auditor should consult with the applicable Federal agency to determine the availability of agency-prepared supplements or audit guides.

e. *Audit Follow-up.* The auditor shall follow-up on prior audit findings, review the summary schedule of prior audit findings prepared by the auditee in accordance with paragraph 14.b, and report, as an audit finding, when the results of the auditor's follow-up are different from those reported in the summary schedule of prior audit findings. The auditor shall perform audit follow-up regardless of whether a prior audit finding relates to a major program in the current year.

f. *Certification.* The auditor shall read the certification prepared by the auditee in accordance with paragraph 16.b and report as an audit finding when the information in the certification is materially inconsistent with the other parts of the reporting package.

13. *Financial Statements and Auditor's Reporting.*

a. *Financial Statements.* The auditee shall prepare financial statements that reflect its financial position, results of operations, and, where appropriate, cash flows for the fiscal year audited. The financial statements shall be for the organizational unit chosen to meet the requirements of this Circular.

b. *Schedule of Federal Awards.* The auditee shall also prepare a schedule of Federal awards for the period covered by the auditee's financial statements. While not required, it is appropriate for the auditee to provide information requested to make the schedule easier to use by Federal awarding agencies and pass-thru entities. At a minimum, the schedule shall:

(1) List total expenditures for each individual award and the CFDA number or other identifying number when the CFDA information is not available.

(2) Include notes that describe the significant accounting policies used in preparing the schedule.

(3) Identify major programs.

(4) List individual awards by Federal agency and major subdivision within a Federal agency. For awards received as a subrecipient, the name of the pass-thru entity and identifying number assigned by the pass-thru entity shall be included.

(5) List individual awards within a category of awards. However, when it is not practical to list each individual award for R&D, total expenditures shall be shown by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(6) Include, in either the schedule or a note to the schedule, the value of non-cash assistance received, insurance programs in effect during the year, and loans or loan guarantees outstanding at year end.

c. *Auditor's Reporting.* The auditor's report(s) shall include the following:

(1) An opinion as to whether the financial statements are fairly presented in conformity with generally accepted accounting principles or a disclaimer of opinion and an opinion as to whether the schedule of Federal awards is fairly presented in all material respects in relation to the financial statements taken as a whole.

(2) A report on the auditee's internal control structure related to the financial statements and major programs. This report shall describe the scope of testing of this internal control structure and the results of those tests, and, where applicable, refer to the separate schedule of findings and questioned costs described in paragraph (4).

(3) A report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements and major programs. This report shall include an opinion as to whether the auditee complied with

laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program, and, where applicable, refer to the separate schedule of findings and questioned costs described in paragraph (4).

(4) A schedule of findings and questioned costs which includes all audit findings as defined in paragraph d.(1). Any internal control findings, compliance findings, and questioned costs which relate to the same issue should be presented as a single finding. Where practical, audit findings should be organized by Federal agency or pass-thru entity.

(5) A copy of any management letters issued by the auditor.

d. *Audit Findings.*

(1) The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(a) Reportable conditions in the internal control structure over major programs. The auditor's determination of a reportable condition for major programs is in relation to an individual compliance requirement for a major program. Auditors shall identify reportable conditions which are individually or cumulatively material weaknesses.

(b) Known fraud affecting an award. Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. This paragraph does not require the auditor to make an additional reporting when the auditor confirms the fraud has been reported outside of the auditor's reports under the direct reporting requirements of GAGAS.

(c) Material irregularities, illegal acts, and noncompliance with the provisions of contracts or grant agreements which auditors conclude, based on evidence obtained, have occurred or are likely to have occurred. The auditor's determination of whether an irregularity, an illegal act, or noncompliance with the provisions of contracts or grant agreements is material is in relation to an individual compliance requirement for a major program. An irregularity, an illegal act, or noncompliance with the provisions of contracts or grant agreements which could have a material effect on an audit objective identified in the compliance supplements shall also be considered as material.

(d) Known questioned costs which are greater than \$10,000 for an individual compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of

questioned costs on the opinion on compliance for each major program, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for an individual compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

(e) Instances where the audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with paragraph 14.b is other than as reported by the auditee.

(f) Instances where the certification prepared by the auditee in accordance with paragraph 16.b is materially inconsistent with the reporting package described in paragraph 16.c.

(2) Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-thru entities to arrive at a management decision. The following specific information shall be included, as applicable, in audit findings:

(a) Federal program and specific award identification including the CFDA title and number, award number and year, name of Federal agency, and name of the pass-thru entity. When information, such as the CFDA title and number or award number, is not available, the auditor shall provide the best information available to describe the Federal award.

(b) The criteria or specific requirement upon which the audit findings are based, including statutory, regulatory, or other citation.

(c) The condition found, including facts that indicate that the audit findings occurred or are likely to have occurred.

(d) Identification of questioned costs and how they were computed.

(e) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value, if appropriate.

(f) The possible asserted effect to provide sufficient information to Federal, State, or local officials to permit them to determine the effect and

cause in order to take prompt and proper corrective action.

(g) Recommendations to prevent future occurrences of the audit finding.

(h) Explanations of responsible officials of the auditee when there is disagreement with the audit findings.

(3) Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

14. *Audit Findings Follow-up.*

a. *General.* The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings under paragraph 13.d(3). Since the summary schedule may include audit findings from multiple years, it shall include the fiscal year in which the finding initially occurred.

b. *Summary Schedule of Prior Audit Findings.* The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule shall also include audit findings in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with paragraph (1) or no longer valid in accordance with paragraph (4).

(1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

(2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.

(3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-thru entity's management decision, the summary schedule shall provide an explanation.

(4) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule.

c. *Corrective Action Plan.* At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The

corrective action plan shall provide the names of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

15. *Management Decision.*

a. *General.* The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-thru entity may request additional information or documentation from the auditee, including a request that the documentation be audited, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

b. *Federal Agency.* As provided in paragraph 6.a.(7), the cognizant agency shall be responsible for coordinating a management decision for audit findings that affect the programs of more than one Federal agency. As provided in paragraph 6.c.(4), a Federal awarding agency is responsible for issuing a management decision for findings that relate to awards it makes to recipients. Alternate arrangements may be made on a case-by-case basis by agreement among the Federal agencies concerned.

c. *Pass-Thru Entity.* As provided in paragraph 6.d.(5), the pass-thru entity shall be responsible for making the management decision for audit findings that relate to awards it makes to subrecipients.

d. *Time Requirements.* The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should proceed as rapidly as possible.

e. *Reference Numbers.* Management decisions shall include the reference numbers the auditor assigned to each audit finding in accordance with paragraph 13.d.(3).

16. *Report Submission.*

a. *General.* Within nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency, the reporting package described in paragraph c shall be submitted in accordance with this Circular. Unless restricted by law or regulation, the

auditee shall make copies available for public inspection.

b. *Certification.* The auditee shall complete a certification form which states whether the audit was completed in accordance with this Circular and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be available from the central clearinghouse designated by OMB. The auditee's chief executive officer or chief financial officer shall sign a statement that the information on the form is accurate and complete.

Certificate of Audit

This is to certify that, to the best of my knowledge and belief, the (specify name of non-profit organization) has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the (specify number) months ended (specify date); (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information on the attached form accurately and completely reflects the results of this audit, as presented in the auditor's report. I declare that the foregoing is true and correct.

Attachment

Information Accompanying Certificate of Audit

The following data elements will be included in a machine-readable form to accompany the Certificate of Audit:

- (1) Catalog of Federal Domestic Assistance (CFDA) number for each covered Federal program
- (2) name of each covered Federal program
- (3) amount of expenditures for the current fiscal year associated with each covered Federal program
- (4) whether or not there are audit findings in the current audit report related to the following:
 - (a) Amount of questioned costs
 - (b) Types of services allowed or unallowed
 - (c) Matching or cost sharing
 - (d) Maintenance of level of effort
 - (e) Earmarking
 - (f) Special reporting requirements
 - (g) Special tests and provisions
 - (h) Administrative requirements
 - (i) Cash management
 - (j) Federal financial reporting
 - (k) Program income
 - (l) Real property management
 - (m) Equipment management
 - (n) Procurement
 - (o) Subrecipient monitoring
 - (p) Uniform Relocation Assistance and Real Property Acquisition Policies Act

(q) Allowable costs/cost principles
(r) Davis-Bacon Act.

(5) Whether or not there is a summary schedule of prior audit findings

(6) If applicable, the CFDA number(s) for prior audit finding(s) reflected in the summary schedule of prior audit findings

(7) Non-Profit Organization Name:

Employer Identification Number:

Name and Title of Responsible Official:

Telephone:

Signature:

Date of Execution:

(8) Auditor Name:

Name and Title of Contact Person:

Auditor Address:

Auditor Telephone:

c. Reporting Package. The reporting package shall include the following:

(1) Certification discussed in paragraph b.

(2) Financial statements and schedule of Federal awards discussed in paragraphs 13.a and 13.b.

(3) Auditor's reporting discussed in paragraph 13.c.

(4) Summary schedule of prior audit findings discussed in paragraph 14.b.

(5) Corrective action plan discussed in paragraph 14.c.

d. Submission to Clearinghouse. All auditees shall submit to the central clearinghouse designated by OMB one copy of the:

(1) Certification discussed in paragraph b, and

(2) Reporting package described in paragraph c for each Federal awarding agency that provided direct awards when the schedule of findings and questioned costs disclosed audit findings for those direct awards or the summary schedule of prior audit findings reported the status of any audit findings for those direct awards.

e. Additional Submission by Subrecipients. Subrecipients shall submit to each pass-thru entity one copy of the:

(1) Certification discussed in paragraph b, and

(2) Reporting package described in paragraph c for each pass-thru entity when either the schedule of findings and questioned costs disclosed audit findings for awards that the pass-thru entity provided or the summary

schedule of prior audit findings reported the status of any audit findings for awards that the pass-thru entity provided.

f. Requests for Report Copies. In response to requests by the Federal agency or pass-thru entity, auditees shall submit the appropriate copies of the reporting package described in paragraph c.

g. Report Retention Requirements. Auditees shall keep one copy of the reporting package described in paragraph c on file for three years from the date of submission to the central clearinghouse. Pass-thru entities shall keep subrecipients' submissions on file for three years from date of receipt.

h. Clearinghouse Responsibilities. The central clearinghouse designated by OMB shall distribute the reporting package received in accordance with paragraph d.(2) to applicable Federal awarding agencies, maintain a data base of completed audits, provide appropriate information to Federal agencies, and follow up with known auditees which have not submitted the required certifications and reporting packages.

i. Clearinghouse address. The address of the central clearinghouse currently designated by OMB is Federal Audit Clearinghouse, Bureau of the Census, 1201 E. 10th Street, Jeffersonville, IN 47132. If the designated central clearinghouse or its address should change, OMB will publish this information in the **Federal Register**.

j. Electronic Filing. Nothing in this Circular shall preclude electronic submissions to the central clearinghouse in such manner as may be approved by OMB. With OMB approval, the central clearinghouse may pilot test methods of electronic submissions.

17. Audit Working Papers and Reports. The auditor shall retain working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency, oversight agency, or pass-thru entity to extend the retention period. When auditors are aware that the Federal awarding agency, pass-thru entity, or auditee is contesting an audit finding, the auditor shall contact the parties contesting the audit finding prior to destruction of the working papers and reports. Audit working papers shall be made available upon request to the cognizant or oversight agency or their designee, the Office of Inspector General of a Federal agency providing direct or indirect funding, or GAO at the completion of the audit.

18. Program-Specific Audit.

a. Program Audit Guide Available. In many cases a program-specific audit guide will be available to provide specific guidance to the auditor on internal controls, compliance requirements, suggested audit procedures, and audit reporting requirements. The auditor should contact the Office of Inspector General of the Federal agency to determine whether such a guide is available. When a current program-specific audit guide is available, the auditor shall follow GAGAS and the guide when performing a program-specific audit.

b. Program Audit Guide Not Available.

(1) When a program-specific audit guide is not available, the auditee and auditor shall have basically the same responsibilities for the Federal program audited as they would have for a major program audited under the requirements of this Circular.

(2) The auditee shall prepare the financial statement(s) for the Federal program that includes, at a minimum, a schedule of the Federal program expenditures and notes that describe the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings consistent with the requirements of paragraph 14.b, and a corrective action plan consistent with the requirements of paragraph 14.c.

(3) The auditor shall: (a) Perform an audit of the financial statement(s) for the Federal program in accordance with GAGAS; (b) obtain an understanding of the internal control structure policies and procedures and perform tests of the internal control structure for the Federal program consistent with the guidance in paragraph 12.c for a major program; (c) perform procedures to determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on the Federal program consistent with the guidance in paragraph 12.d for a major program; (d) follow up on prior audit findings, review the auditee's summary schedule of prior audit findings, and report, as an audit finding, when the results of the auditor's follow-up are different from those reported by the auditee consistent with the requirements of paragraph 12.e; and, (e) read the certification prepared by the auditee consistent with the requirements of paragraph 12.f.

(4) The auditor shall: (a) Render an opinion as to whether the financial statement(s) of the Federal program is fairly presented in accordance with the stated accounting policies; (b) issue a report on the internal control structure

related to the Federal program, which shall describe the scope of testing of that internal control structure and the results of those tests; (c) issue a report on compliance with laws and regulations which includes an opinion as to whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on the Federal program; and, (d) issue a schedule of findings and questioned costs which includes audit findings for the Federal program as described in paragraph 13.d.

c. Reporting for Program-Specific Audits. Within nine months after the end of the audit period, unless a longer period is approved in advance by the Federal agency providing the funding, the auditee shall submit to the central clearinghouse designated by OMB a certification prepared in accordance with the requirements of paragraph 16.b. When a program-specific audit guide is available, the financial statement(s) and the audit report shall be submitted in accordance with that guide. When a program-specific audit guide is not available and the schedule of findings and questioned costs disclosed audit findings or the summary schedule of prior audit findings reported the status of any audit findings, the auditee shall submit to the Federal awarding agency or pass-thru entity one copy of the financial statement(s), summary status of prior audit findings, corrective action plan, and the auditor's reporting described in paragraph b.(4). Unless restricted by law or regulation, the auditee shall make report copies available for public inspection.

d. Other Paragraphs of This Circular May Apply. The provisions of paragraphs 1 through 11, 15, 17 and other referenced provisions of this Attachment apply to program-specific audits unless contrary to a program-specific audit guide or program laws and regulations.

Appendix 1—Major Program Determination

The auditor shall use a risk-based approach to determine which Federal programs are major programs. This risk-based approach shall include consideration of: (a) Current and prior audit experience, (b) oversight by Federal agencies and pass-thru entities, and (c) the inherent risk of the Federal program. The following process shall be followed:

Step 1—The auditor shall identify the larger Federal programs, which shall be labeled Type A programs. Type A programs are defined as Federal programs with Federal expenditures

exceeding three percent of total Federal expenditures or \$300,000, whichever is greater. The remaining Federal programs shall be labeled Type B programs.

The inclusion of large non-cash assistance, insurance programs, or loans and loan guarantees (loans), should not result in the exclusion of other programs as Type A programs. When a Federal program providing non-cash assistance, insurance, or 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.

Step 2—The auditor shall identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods, and, in the most recent period audited, it shall have had no audit findings from reportable conditions, irregularities, illegal acts, or noncompliance with the provisions of contracts or grant agreements as described in paragraphs 13.d.(1)(a) and 13.d.(1)(c) of the Attachment. The auditor shall consider the criteria in D, E, F, G, and H of Appendix 2 and whether any changes in personnel or systems affecting a Type A program have significantly increased risk, and apply professional judgment in determining whether a Type A program is low-risk.

Step 3—The auditor shall identify Type B programs which are high-risk using professional judgment and the criteria in Appendix 2. Except for known reportable conditions in internal controls or compliance problems as discussed in criteria A, B, and D of Appendix 2, a single criteria in Appendix 2 would seldom cause a Type B program to be considered high-risk.

An audit under this Circular is not expected to test small Federal programs. Therefore, programs with expenditures of less than \$100,000 would not be considered high-risk unless it is necessary to audit a program with expenditures of less than \$100,000 as a major program to meet the 50 percent rule discussed below.

Step 4—All Type A programs shall be audited as major programs, except the auditor may exclude any Type A programs identified as low-risk under step 2. All Type B programs identified as high-risk under step 3 shall be audited as major programs.

50 Percent

Rule—The audit of Federal programs shall cover at least 50 percent of total Federal expenditures unless the auditee meets the criteria in Appendix 3 for a

low-risk auditee, in which case the coverage shall be at least 25 percent of total Federal expenditures.

Documentation of Risk

The auditor shall document in the working papers the risk analysis process used in determining major programs.

Auditor's Judgment

When the major program determination has been performed and documented in accordance with this Circular, the auditor's judgment in applying the risk-based approach to determine major programs shall be presumed correct. Challenges by Federal agencies and pass-thru entities shall only be for clearly improper use of the guidance in this Circular. However, Federal agencies and pass-thru entities may provide auditors guidance about the risk of a particular Federal program and the auditor shall consider this guidance in determining major programs in audits not yet completed.

Deviation from Use of Risk Criteria

For first year audits, the auditor may elect to determine major programs as all Type A programs plus any higher risk Type B programs as necessary to cover at least 50 percent of total Federal expenditures. Under this option, the auditor would not be required to perform the procedures discussed in steps 2, 3, and 4 of this Appendix.

A first-year audit is the first year the entity is audited under this Circular or the first year of a change of auditors or a bona fide procurement process which could result in a change of auditors.

To ensure that a frequent change of auditors would not preclude audit of high risk Type B programs, this election for first year audits may not be used by a non-profit organization more than once in every three years.

Appendix 2—Criteria for Risk

The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring which could be material to the Federal program. The auditor shall use auditor judgment and consider criteria such as the following to identify risk in Federal programs:

Current and Prior Audit Experience

A. Weaknesses in the internal control structure over Federal programs would indicate higher risk. Consideration should be given to the control environment over Federal programs and such factors as the expectation of management's adherence to applicable laws and regulations and the provisions of contracts and grant agreements and

the competence and experience of personnel who process transactions affecting Federal programs.

1. A Federal program administered under multiple internal control structures may have a higher risk. When identifying risk in a large organization-wide audit, the auditor shall consider whether weaknesses are isolated in a single operating unit (e.g., one college campus) or pervasive throughout the organization.

2. When significant parts of a Federal program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk.

3. The extent to which computer processing is used to administer Federal programs, as well as the complexity of that processing, should be considered by the auditor in assessing risk. New and recently modified computer systems may also indicate risk.

B. Prior audit findings would indicate higher risk, particularly when the audit findings could have a significant impact on a Federal program or have not been corrected.

C. Federal programs not recently audited as major programs may be of higher risk than Federal programs recently audited as major programs without audit findings.

Oversight Exercised by Federal Agencies and Pass-Thru Entities

D. Oversight exercised by Federal agencies or pass-thru entities could indicate risk. For example, recent monitoring or other reviews performed by an oversight entity which disclosed no significant problems would indicate lower risk. However, monitoring which disclosed significant problems would indicate higher risk.

E. Risk would be higher for Federal programs identified by the Office of Management and Budget (OMB) as high-

risk at the auditee level. OMB plans to provide this identification in its compliance supplements or by issuing an annual list of high-risk programs.

Inherent Risk of the Federal Program

F. The nature of a Federal program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the Federal program contracts for goods and services. For example, Federal programs that disburse funds through third party contracts or have eligibility criteria may be of higher risk. Federal programs primarily involving staff payroll costs may have a high-risk for time and effort reporting, but otherwise be at low-risk.

G. The phase of a Federal program in its life cycle at the Federal agency may indicate risk. For example, a new Federal program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in Federal programs laws, regulations, or the provisions of contracts or grant agreements may increase risk.

H. The phase of a Federal program in its life cycle at the auditee may indicate risk. For example, during the first and last years, an auditee participates in a Federal program, the risk may be higher due to start-up or closeout of program activities and staff.

I. Type B programs with larger expenditures would be of higher risk than programs with substantially smaller expenditures.

As part of the risk analysis, the auditor may wish to discuss a particular Federal program with auditee management and the Federal agency or pass-thru entity.

Appendix 3—Criteria for a Low-Risk Auditee

An auditee which meets all of the following conditions for the preceding

two years shall qualify as a low-risk auditee under the 50 percent rule described in Appendix 1, unless the current year audit does not meet the conditions described in paragraph 3 below:

1. The audits were performed in accordance with the provisions of this Circular.

2. The auditor's opinions on the financial statements and the schedule of Federal awards were unqualified. However, the cognizant or oversight agency may judge that an opinion qualification does not affect the management of Federal awards and provide a waiver.

3. There were no deficiencies in internal controls which were identified as material weaknesses under the requirements of generally accepted government auditing standards (GAGAS). However, the cognizant or oversight agency may judge that the material weaknesses do not affect the management of Federal awards and provide a waiver.

4. For any one Type A program, as defined in step 1 of Appendix 1, there were no audit findings as described in paragraph of the Attachment from:

a. Internal control deficiencies which were identified as material weaknesses.

b. Irregularities, illegal acts, or noncompliance with the provisions of contracts or grant agreements which either individually or cumulatively have a material effect on the Type A program.

c. Known or likely questioned costs that exceed five percent of the total expenditures for a Type A program during the year.

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