APPENDIX VII

OTHER AUDIT ADVISORIES

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

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

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

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

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

will help ensure audit quality because of a more consistent approach for budgeting and determining staffing resources.

II. Effect of Changes to Compliance Requirements and Other Clusters

Removal of Compliance Requirement from Part 2 Matrix

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

Addition of a New Program to an Other Cluster

One of the criteria for an "other cluster" to be considered a low-risk Type A program is that it must have been audited as a major program in at least one of the two most recent audit periods ("2-year look back" under 2 CFR section 200.518(c)(1)). In the year that this Supplement adds a new program to another cluster listed in Part 5, the determination of whether the resulting other cluster meets the 2-year look back criterion requires additional consideration. During that year, the other cluster cannot qualify as having been audited as a major program in one of the two most recent audit periods unless the auditee's current-year expenditures for the newly added program were less than or equal to twenty-five percent (0.25) of the Type A threshold, or all of the programs included in the resulting other cluster met the "2-year look back" criterion. The additional criteria in 2 CFR section 200.518(c) must also be evaluated by the auditor to determine if the other cluster can be considered a low-risk Type A program in the current year.

In years after this Supplement adds a program to another cluster, such addition in a prior year does not require additional consideration for the 2-year look back criterion.

The following examples are intended to illustrate consideration of the addition of a new program to another cluster. They are illustrative only and not based on the contents of the current Supplement.

Background for Examples:

Type A threshold $750,000.

Human Services existing other cluster (93.123, 93.125, and 93.127) was audited in 2015 with no audit findings.

Part 5 of the 2017 Compliance Supplement added CFDA 93.129 to form the new other cluster with the following Federal awards expended in 2017:

93.123: $ 500,000

93.125: $ 300,000

93.127: $ 400,000

93.129: $ 300,000

Considerations for 2017 major program determination using these facts:

Example 1

The Human Services cluster was audited in 2015. However, the auditee's current year expenditures for newly added CFDA 93.129 exceed 0.25 of the Type A threshold of $750,000 or $187,500; therefore, the resulting other cluster fails the 2-year look back criterion and cannot be considered a low-risk Type A program in 2017.

If, however, the auditee's expenditures for newly added CFDA 93.129 were equal to or less than $187,500, the other cluster would pass the 2-year look back criterion and could be considered to have been audited as a major program in one of the two prior years.

Example 2

The Human Services cluster was audited in 2015. The newly added program CFDA 93.129 was audited in 2016. If both the cluster and the newly added program met all criteria in 2 CFR section 200.518(c) to be considered low-risk programs for 2017, the other cluster would be a low-risk Type A program in 2017.

III. Due Date for Submission of Audit Reports and Low-Risk Auditee Criteria

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

The auditor may consider using the following steps to identify FAC submissions that do not meet the due date.

Suggested Steps

1. Inquire of entity management and review available prior-year financial reports and audits to ascertain if the entity had Federal awards expended of $750,000 (or $500,000 for audits under OMB Circular A-133, if applicable), in the prior two audit periods and, therefore, was required to have an audit under the uniform guidance/circular and file with the FAC.

2. If the entity was below the $750,000 (or $500,000, if applicable) threshold in either of the prior two audit periods, and an audit was not required under the uniform guidance/circular, obtain written representation from management to this fact and no further audit procedures are necessary as the entity does not qualify as a low-risk auditee.

3. If a prior-year audit was conducted, obtain a copy of the data collection form (Form SF-SAC) and the reporting package.

    a. Calculate the "Nine Month Due Date" to file with the FAC as the date 9 months after the end of the audit period. For example, for audit periods ending June 30, 2019, the audit report would be due March 31, 2020.

    b. Access the FAC web page at https://harvester.census.gov/facweb.

    c. Select the "Find Audit Information" option and using the "Search forA-133 Results – General Information" option for the audit year in question, locate the FAC record for the entity. Verify correct record by comparing both the entity name and EIN number from the entity's copy of the SF-SAC to the FAC web page.

    d. For this record, located on the FAC web page, compare the "FAC Accepted Date" to the Nine Month Due Date to determine if the due date was met.

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

4. Contact the FAC at govs.fac@census.gov, (301) 763-1551 (voice), (800) 253-0696 (toll free), (301) 763-6792 (fax), if additional information is needed on using the FAC website or determining the date the FAC accepted the report submission as complete.

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

National Science Foundation

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

There will be a transition period (probably 4 years) where SEFAs will include both awards funded previous to this change in approach and awards made subsequent to it. Previously funded awards may be identified on the SEFA at the university's discretion, but awards resulting from proposals due on or after January 14, 2013 must be included in the SEFA as part of the R&D cluster. This guidance complies with the NSF Proposal and Award Policies and Procedures Guide (PAPPG), the current and prior versions of which may be found at http://www.nsf.gov/bfa/dias/policy/.

National Institutes of Health

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

V. Exceptions to the Guidance in 2 CFR Part 200

OMB does not maintain a complete listing of approved agency exceptions to the uniform guidance in 2 CFR part 200

For programs included in the Supplement, the auditor should review the program supplement and, as necessary, agency regulations adopting/implementing the OMB uniform guidance in 2 CFR part 200 to determine if there is any exception related to the compliance requirements that apply to the program. For programs not included in the Supplement that are audited using Part 7, the auditor should review agency regulations adopting/implementing 2 CFR part 200 to determine if an exception applies to the program.

Questions about the agency-level rulemakings that adopt/implement 2 CFR part 200 should be directed to the Federal agency key management liaisons specified in Appendix III to the Supplement.

VI. Administrative Relief for Grantees Impacted in 2017 by Hurricanes Harvey, Irma, or Maria

This guidance is to assist auditees, auditors, pass-through entities, and Federal awarding agencies with ensuring appropriate administrative relief for audit related issues resulting from the impact of hurricanes Harvey, Irma, or Maria (Hurricanes) as provided in the memorandum to Federal agencies from the Office of Management and Budget, Office of Federal Financial Management (OFFM) dated October 26, 2017 (https://cfo.gov/administrative-relief-for-grantees-impacted-by-hurricane-harvey-irma-and-maria/).

In the memorandum, OFFM identified 11 actions to relieve short-term administrative, financial management, and audit requirements under the Uniform Guidance at 2 C.F.R. Part 200 – "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" – without compromise to the grantee accountability requirements.

Regarding item 11 of the Memorandum related to the Single Audit relief for affected grantees, note the following.

1. When the auditee or auditor believe the effects of the Hurricanes caused non-compliance (including internal control deficiencies) cited in audit findings; such facts and circumstances should be explained in the audit finding, views of responsible officials, and the corrective action plan, as appropriate.

2. When the auditee believes the effects of the Hurricanes caused the reporting package to be submitted after the due date in 2 CFR 200.512(a)(1) (Late Submission), the auditee should describe the facts and circumstances in the notes to the Schedule of Expenditures of Federal Awards.

3. While the Uniform Guidance no longer authorizes Federal agencies to provide extensions to the report submission due date or authorizes waivers for the low-risk auditee criteria, Federal awarding agencies and pass-through entities should not impose sanctions for a Late Submission of one year or less when the Hurricanes were the cause of the Late Submission.

4. Federal awarding agencies and pass-through entities, including their program managers and audit resolution officials, should use cooperative audit resolution and give full consideration and appropriate relief when the Hurricanes were a contributing factor in an audit finding.

VII. National Defense Authorization Acts (NDAA) of 2017 and 2018

This guidance is intended to assist auditors with reporting expectations related to the purchase threshold changes in the NDAA 2017 and 2018.

Although the NDAA of 2017 was enacted on December 23, 2016, it has not been codified in the Federal Acquisition Regulations. An official OMB memorandum M-18-18 for the micro purchase threshold provisions has been issued by OMB on June 20, 2018 that clarifies the effective date for the higher threshold and approval process for the applicable recipients requesting a micro-purchase threshold higher than $10,000. In spite of the memo, there is some confusion as whether the Act was effective on December 23, 2016, or whether only effective once codified in the Federal Acquisition Regulations. Therefore auditors are not expected to develop audit findings for covered entities that have implemented increased purchase thresholds after December 23, 2016 as long as the entity documented the decision in its internal procurement policies.

The provisions of NDAA of 2018 will not be effective until they are codified in the Federal Acquisition Regulations. However, in accordance with OMB M18-18, early implementation is allowed if the grant recipient requests and receives approval from the Federal agencies. However, there is some confusion from the grant community whether the language in the memo allows grant recipients to use of the higher thresholds without an official approval from the Federal cognizant agency for indirect cost rates. Therefore auditors are not expected to develop audit findings for grant recipients that have implemented increased purchase thresholds after June 20, 2018, as long as the entity documented the decision in its internal procurement policies.

Additional information is provided in Part 3.2.I, "Procurement and Suspension and Debarment" of the 2019 Supplement.

VIII. Audit Sampling

Certain suggested audit procedures in this *Compliance Supplement* lend themselves to testing using sampling. Auditors are reminded that when performing an audit under generally accepted auditing standards (GAAS), including single audits, that AU-C section 530, *Audit Sampling*, https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/au-c-00530.pdf, provides auditor requirements and guidance related to an auditor's use of sampling. Failure to follow the standards, including the requirement to determine sample sizes that are sufficient to reduce sampling risk to an acceptably low level, may result in the audit being considered nonconforming by the Federal cognizant agency for audit as part of a quality control review.

The guidance in AU-C section 530 primarily addresses sampling considerations when performing a financial statement audit. The AICPA Audit Guide, Government Auditing Standards and Single Audits, contains auditor guidance for, among other things, designing an audit approach that includes audit sampling to achieve both compliance and internal control over compliance related audit objectives in a single audit or program-specific audit performed in accordance with the Uniform Guidance. It also includes suggested minimum sample sizes for tests of controls over compliance and tests of compliance based on certain engagement-specific inputs.

The AICPA Audit Guide, Audit Sampling, https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/au-c-00530.pdf, also provides additional guidance and technical background, which forms the basis of the practical application of audit sampling to Uniform Guidance audits.