University of Missouri
OMB Circular A-133 Training
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Course Objectives

At the end of the course, participants will be familiar with:

- The objectives of an A-133 audit and its importance
- The OMB Compliance Supplement
- The 14 Compliance Requirements
  - Compliance
  - Internal controls
- The Findings relating to the University’s June 30, 2005 Single Audit Report
Objectives of the Single Audit

- Financial statements presented fairly in accordance with U.S. Generally Accepted Accounting Principles (GAAP)
  - Compliance with laws and regulations
- Establish adequate internal control policies and procedures (most important part)
- Compliance with laws and regulations material to major federal programs
Authoritative Literature

- Office of Management and Budget (OMB) Circular A-133
- AICPA Audit Guide – *Government Auditing Standards and Circular A-133 Audits*
- AICPA Audit and Accounting Guide – *State and Local Governments*
- OMB Compliance Supplement
  - New version published each year in Spring
- Administrative Requirements
  - OMB Circular A-110
  - A-102 Common Rule
- Cost Principles
  - OMB Circular A-21 - Educational Institutions
  - OMB Circular A-87 - Governments
  - OMB Circular A-122 - Non-Profit Organizations
  - HHS’s cost principles at 45 CFR Part 74 Appendix E
Single Audit Reports

- Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards (GAS opinion)
- Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133
- Schedule of Expenditures of Federal Awards (and notes to SEFA)
- Schedule of Findings and Questioned Costs
Single Audit Report Findings

- GAS Findings
- Federal Award Findings
  - Reportable condition
  - Material Weakness
  - Noncompliance
    - Known questioned costs >$10,000
    - Likely questioned costs > $10,000
  - Known fraud
  - Material misrepresentation on client’s status of prior findings
  - Circumstances for other than unqualified report on compliance
Finding Details

- Specific federal award
- Specific requirement (criteria) citations
- Condition found—supporting fact
- Questioned costs and computation
- Proper perspective—isolated or systematic
- Possible asserted effect
- Recommendations
- View of Responsible Officials
Schedule of Expenditures of Federal Awards (SEFA)

- List individual federal programs by federal agency
- Federal awards received as a subrecipient
  - pass-through entity, and
  - identifying number assigned by the pass-through entity
- Total federal awards expended by program
  - CFDA number or other identifying number
  - Clusters
- Amount of pass-through awards from each federal program
- Noncash awards in either the schedule or a note to the schedule
Fiscal Year 2005 Finding Relative to SEFA

- Finding 05-04 – Relates to all Federal Programs
  - Reportable Condition
  - Material Weakness
- SEFA Findings are taken very seriously by Federal Government
Program Risk Assessment

- A-133 requires the utilization of a risked-based approach to determine major programs
  - Overall evaluation of the risk of noncompliance which could be material to the program, includes:
    - Discussions with appropriate client personnel
    - Understanding of nature of program and how it is operated
    - Consideration of various risk factors

- Determination of major programs
Review of the Compliance Supplement
And
14 Compliance Requirements
What is the Compliance Supplement?

- Serves as tool to identify those laws, regulations, and provisions of contract and grant agreements that may have a direct and material effect on each major program
- Limits need to research many laws and regulations for certain major programs under audit
- Provides some information on federal program objectives, procedures, and compliance requirements
- Use by auditors is required
- Can be a useful resource and reference for client
Overview of the Compliance Supplement

- Must use correct Compliance Supplement (depends on clients year-end...new version comes out each Spring)
- Contents
  - Part 1: Background, purpose and applicability
  - Part 2: Matrix of compliance requirements
  - Part 3: Compliance requirements
  - Part 4: Agency program requirements
  - Part 5: Clusters of programs
  - Part 6: Internal control
  - Part 7: Guidance for auditing programs not included in Compliance Supplement
  - Appendices
Compliance Requirements

- Objectives are consistent across all programs
  - Criteria may vary by program
- Organized to limit repetition of compliance requirements, audit objectives, and audit procedures
- Additional information is sometimes provided within specific program requirements and for grant agreements and/or grant manuals
- 14 types of compliance requirements identified
  - Identification of compliance requirements is a client responsibility
  - Determination of material requirements is a auditor responsibility
- Compliance with requirements rests with client
14 Compliance Requirements

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Cash Management
4. Davis-Bacon Act
5. Eligibility
6. Equipment & Real Property Management
7. Matching, Level of Effort, Earmarking
8. Period of Availability of Federal Funds
14 Compliance Requirements (Cont.)

- 9 - Procurement & Suspension and Debarment
- 10 - Program Income
- 11 - Real Property Acquisition & Relocation Assistance
- 12 - Reporting
- 13 - Subrecipient Monitoring
- 14 - Special Tests & Provisions
Testing of Compliance Requirements

- Only compliance requirements that are applicable and are considered to have a direct and material effect on the major program must be tested.

- Determining Material Requirements
  - Consider the following when considering materiality:
    - Program agreements and program budget
    - Amount of expenditures in fiscal year relative to compliance requirement
    - Other audit reports, desk reviews, corrective action plan, any federal and state correspondence
    - Financial reports
    - Compliance Supplement
    - Discussions with personnel knowledgeable of program
Internal Controls

What are Internal Controls?
- Process to provide reasonable assurance that:
  - Transactions are recorded properly
  - Transactions are executed in compliance with laws and regulations
  - Assets are safeguarded

Internal Control Guidance
- Part 6 of Compliance Supplement
- OMB Circular A-133
- Statement of Auditing Standard (SAS) No. 55, as amended by SAS No. 78
  - Internal Control–Integrated Framework (COSO Framework)
    - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring
Understanding COSO Components

Control Environment

- Sets the tone of an organization influencing the control consciousness of its people
- Sense of conducting operations ethically
- Staff knowledgeable about compliance requirements and given responsibility to communicate all instances of noncompliance to management
- Management's commitment to competence ensures that staff receive adequate training to perform their duties
- Management's support of adequate information and reporting system
Understanding COSO Components, con’t,

**Risk Assessment**
- Program managers and staff understand and have identified key compliance objectives
- Process established to implement changes in program objectives and procedures
- Identification and analysis of relevant risks to achievement of objectives
- Employees who require close supervision (e.g., inexperienced) are identified
- Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance
Control Activities

- Policies and procedures that help ensure that management's directives are carried out
- Operating policies and procedures clearly written and communicated
- Procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards
- Management prohibition against intervention or overriding established controls
- Adequate segregation of duties provided between performance, review, and record-keeping of a task
- Supervision of employees commensurate with their level of competence
Understanding COSO Components, con’t,

**Information and Communication**
- Identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities
- Accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both
- Adequate source documentation exists to support amounts and items reported
- Recordkeeping system is established to ensure that accounting records and documentation retained for the time period required by applicable requirements
Understanding COSO Components, con’t,

**Information and Communication, con’t**

- Reports provided timely to managers for review and appropriate action
- Accurate information is accessible to those who need it
- Reconciliations and reviews ensure accuracy of reports
- Established internal and external communication channels
- Employees duties and control responsibilities effectively communicated
- Channels of communication for people to report suspected improprieties established
- Actions taken as a result of communications received
- Established channels of communication between pass-through entity and subrecipients
Monitoring

- Process that assesses the quality of internal control performance over time
- Built-in and ongoing through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review
- Follow up on irregularities and deficiencies to determine the cause
- Internal quality control reviews performed
- Internal audit routinely tests for compliance with Federal requirements
Examples of Internal Controls

- Adequate segregation of duties
- Appropriate authorization controls
- Use of management reports
- Appropriate level and documentation of supervisory review
- Written policies and procedures over requirements
- Verification of the accuracy of calculations
- Adequate supporting documentation maintained
- Automated controls within the computer system
Testing of Internal Control

- Entity should establish and maintain internal control to ensure compliance
- Internal controls must be established over EACH of the compliance requirements
- Internal controls must be testable thus need to be well documented and re-performance must be able to occur
- Auditors are responsible for:
  - Obtaining understanding of internal controls
  - Assessing control risk
  - Testing both design and operating effectiveness of internal controls over each direct and material compliance requirement over entire audit period
    - Can achieve through observation, inspection, re-performance
1. Activities Allowed or Unallowed

- The University is responsible for ensuring that the federal funds are spent on activities which support the objectives of the program.
- Federal awards expended only for allowable activities and determining activities that can or cannot be funded.
- How are activities allowed or unallowed determined?
  - Review program requirements and grant agreements/award documents for specific requirements for activities allowed or unallowed that are unique to each Federal program.
  - Code of Federal Regulation (CFR) or Uniform Commercial Code (UCC) are also resources for identification.
  - For programs included in compliance supplement, some specific requirements found in Part 4.
2. Allowable Costs/Cost Principles

- The University is responsible for ensuring that the funds are spent in accordance with OMB Circular A-21 (allowable cost principles), OMB Circular A-102 (administrative requirements) and other Federal Regulations required by agreements.
- Some form of cost principles apply to all federal awards, whether received directly or indirectly.
- Each set of cost principles generally describe selected cost items, allowable and unallowable costs, and indirect cost rate methodologies.
General Information About OMB Circular A-21

- **Objectives of Circular A-21**
  - Establish uniform standards of allowability
  - Ensure programs bear fair share of costs
- **Cost reimbursement principles for all federal programs administered by educational institutions**
- **Applies to all:**
  - grants
  - cost-reimbursement contracts
  - sub-awards
General Criteria for Allowable Costs/Cost Principles

Does the cost (both direct and indirect) conform with the following 6 criteria?

- Reasonable and necessary
- Allowable
- Consistent treatment
- Conforms to limitations or exclusions (A-21 and grant/contract requirements)
- Net of all applicable costs
- Documented appropriately
A-21 Effort Reporting – Acceptable Methods

- **Plan-Confirmation**
  - Based on budgeted, planned, or assigned work activity.
  - Certification required at least annually.

- **After-the-Fact Activity Records**
  - Based upon after-the-fact reporting, supported by activity reports
  - For professorial and professional staff, certification is required each academic term, but no less frequently than every six months.
  - For other employees, the reports will be prepared no less frequently than monthly and should coincide with pay periods.

- **Multiple Confirmation**
  - Separate confirmation is made for salaries versus indirect costs.
  - Certification is required each academic term, but no less frequently than every six months.
1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles

Control Objective
- To provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.
Fiscal Year 2005 Allowable Costs/Cost Principles Findings

- **Finding 05-05 – Allowable Costs/Cost Principles (EVR’s)**
  - Reportable Condition
  - Material Weakness
  - Material Noncompliance

- **Finding 05-06 – Allowable Costs/Cost Principles (Indirect Costs)**
  - Reportable Condition
  - Material Weakness
  - Material Noncompliance

- **Together these 2 Findings resulted in a qualified opinion for the R & D Cluster Major Program**
Finding 05-12 – Allowable Costs/Cost Principles (EVR’s)
- Reportable Condition
- Material Weakness
- Material Noncompliance

Resulted in a qualified opinion for the Smith-Lever Major Program
1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles

UM Discussion
3. Cash Management

- The University is responsible for ensuring that funds are reimbursed in accordance with U.S. Treasury regulations.
- 2 sets of cash management requirements
  - Reimbursement basis
  - Advance basis
- When on a reimbursement basis, funds must be paid out to vendor before request for reimbursement can occur.
- When funds are advanced, recipients must have procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.
- Pass-through entities must monitor cash drawdowns by their subrecipient to assure they conform substantially to the same standards.
Control Objective

- To provide reasonable assurance that the draw down of Federal cash is only for immediate needs States comply with applicable Treasury agreements, and recipients limit payments to subrecipients to immediate cash needs
Fiscal Year 2005 Cash Management Findings

Finding 05-07 – Cash Management (R & D Cluster Major Program)
- Reportable Condition
- Material Weakness
- Noncompliance

Finding 05-14 – Cash Management (Energy Major Program)
- Reportable Condition
- Material Weakness
- Noncompliance
3. Cash Management

UM Discussion
4. Davis-Bacon Act

- The University is responsible for ensuring that wages are paid in accordance with the prevailing wage act.
- Applies to programs with construction contracts.
- All laborers and mechanics employed on construction contracts financed by Federal assistance must be paid wages not less than those established for the locality of the project by Department of Labor.
- Construction contracts and subcontracts in excess of $2,000 financed by federal funds.
4. Davis-Bacon Act (Cont.)

Control Objective

- To provide reasonable assurance that contractors and subcontractors were properly notified of the Davis-Bacon Act requirements and the required certified payrolls were submitted to the non-Federal entity.
5. Eligibility

- Specific requirements unique to each federal program
- Only eligible individuals or subrecipients participated
- Amounts provided were in accordance with requirements
- Applies to most programs which provide benefits to individuals
- Criteria varies among programs
- Involves individuals, groups of individuals, area of service delivery, or subrecipients
- Consider whether continuing as well as initial
- Involves both who is eligible and the benefit paid
Control Objective

To provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.
The University is responsible for ensuring that equipment and real property is acquired, maintained and disposed of in accordance with OMB Circular A-102 (administrative requirements) and other Federal regulations.

Applies to programs which purchase equipment or real property.

The basic requirements for equipment are:

- Equipment records must be maintained, a physical inventory must be taken once every two years and reconciled to the equipment records. An appropriate control system shall be used to safeguard equipment.
- The real property cannot be disposed of without prior consent; if sold the entity must reimburse awarding agency for Federal portion of net sale.
- Maintain proper equipment records, safeguards and maintains equipment.
- Disposal of equipment or real property in accordance with requirements and federal agency was compensated for its share.
Control Objective

To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.
Fiscal Year 2005 Equipment & Real Property Management Finding

Finding 05-08 – Equipment & Real Property Management (R & D Cluster Major Program)
- Reportable Condition
- Material Weakness
- Unique circumstances that lead to there not being material noncompliance
6. Equipment and Real Property Management

UM Discussion
7. Matching, Level of Effort, Earmarking

- The University is responsible for ensuring that the required level of local participation is met and properly reported in accordance with OMB Circular A-102 (administrative requirements)
- Matching - requires entity to provide contribution or a specified amount or percentage to match Federal awards
- Level of Effort - requires a specific level of service be provided from period to period, a specified level of expenditures from nonfederal sources or requires Federal funds to supplement not supplant nonfederal funds
- Earmarking - requires specific minimums and/or maximum amount or percentage of program’s funding that must/may be used for specified activities
- Not universal but specific to program
- Review program laws, regulations, and contract provisions
Control Objective

- To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.
7. Matching, Level of Effort, Earmarking

UM Discussion
8. Period of Availability of Federal Funds

- The University is responsible for ensuring that funds are committed and expended in accordance with the allowable time frames as defined by the applicable Federal regulations.
- Contract or grant agreements often indicate period funds are available for obligation.
- Review program requirements regarding carryover of unused funds.
- Federal awards may specify a time period in which the awards can be expended when a funding period is specified, the award can only be charged for costs obligated during the funding period.
Control Objective

- To provide reasonable assurance that Federal funds are used only during the authorized period of availability.
Fiscal Year 2005 Period of Availability Finding

Finding 05-09 – Period of Availability (R & D Cluster Major Program)
- Reportable Condition
- Material Weakness
8. Period of Availability of Federal Funds

UM Discussion
The University is responsible for ensuring that funds are spent for goods/services acquired in accordance with Federal guidelines related to procurement as set forth in OMB Circular A-102 (administrative requirements) and other applicable Federal regulations.

- Can use the same procurement procedures as they do for non-federal, provided they conform to A-102 Common Rule.

**Procurement procedures** - Written procurement procedures providing, at a minimum:
- Unnecessary items
- Analysis is made of lease and purchase alternatives
- Solicitations provide for all of the following:
  - Clear and accurate description of the technical requirements
9. Procurement and Suspension and Debarment (Cont.)

- **Competition** - Conducted in a manner to provide, to the maximum extent practical, open and free competition
- **Codes of Conduct/Ethical Conduct** - Written standards of conduct governing the performance of its employees engaged in the award and administration of contracts, including conflict of interest, gratuities, disciplinary actions
- **Sole Source Awards**
- **Suspension and Debarment**
  - Prohibits contracting with suspended or debarred parties
  - Contractors receiving > $100,000 must certify organization is not suspended or debarred
- **Determine procurements in compliance with A-102 Common Rule and A-110**
- **Obtain required certifications**
Control Objective

- To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.
10. Program Income

- The University is responsible for ensuring that program income is properly captured and expended in accordance with OMB Circular A-102 (administrative requirements) and other applicable Federal regulations.
- Direct income directly generated by federally-funded project.
- May be used in one of 3 methods:
  - Deducted from outlays
  - Added to project budget
  - Used to meet matching requirements
- Program income is correctly recorded and used in accordance with requirements.
10. Program Income (Cont.)

Control Objective

- To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements
11. Real Property Acquisition & Relocation Assistance

- The University is responsible for ensuring that real property is acquired in accordance with OMB Circular A-102 (administrative requirements) and other applicable Federal regulations.
- Applies to few programs (e.g. Transportation programs).
- Provides for equitable treatment of persons displaced from their homes, businesses or farms, includes: appraisal, negotiations and relocation.
- Compliance with:
  - Property acquisition, appraisal, negotiation, and residence relocation.
  - Replacement housing payments.
  - Rental or down payment assistance.
  - Business relocation.
Control Objective

To provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements.
12. Reporting

- The University is responsible for compiling, submitting and maintaining Federal financial, performance and other special reports related to the activities of the grant program and submitted to the federal agency or its designee.
- Cash vs. accrual basis
- Forms may vary from standard reports
- May include electronic submissions
- Required reports include all activity of the reporting period
- Reports supported by applicable accounting or performance records
- Reports are fairly presented in accordance with program requirements
12. Reporting (Cont.)

- **Standard reporting forms**
  - Financial status report
  - Request for advance or reimbursement
  - Outlay report and request for reimbursement for construction project
  - Federal cash transaction report

- **Performance reporting**

- **Special reporting**
Reporting Example

- SF-269, Financial Status Report
- SF-270, Request for Advance or Reimbursement
- SF-271, Outlay Report and Request for Reimbursement for Construction Program
- SF-272, Federal Cash Transactions Report
- Special Reports
12. Reporting (Cont.)

Control Objective

To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.
Fiscal Year 2005 Reporting Findings

- **Finding 05-10 – Reporting (R & D Cluster Major Program)**
  - Reportable Condition
  - Material Weakness
  - Unique circumstances that lead to there not being material noncompliance

- **Finding 05-13 – Reporting (Smith-Lever Major Program)**
  - Reportable Condition
  - Noncompliance

- **Finding 05-15 – Reporting (Energy Major Program)**
  - Reportable Condition
  - Material Weakness
  - Noncompliance
13. Subrecipient Monitoring

- The University is responsible for identifying subrecipients and monitoring their compliance with applicable Federal compliance requirements.
- Applies where funds are passed through.
- Requires pass-through entities to monitor their subrecipients’ use of funds to ensure compliance with federal laws, regulations, contracts and grants and that performance goals are achieved.
- A pass-through entity is responsible for:
  - Award identification
  - During-the-award monitoring
  - Subrecipient audits
  - Pass-through entity impact
- Monitoring activities:
  - Reviewing reports
  - Performing site visits
Subrecipient vs. Vendors

- Eligibility
- Performance measurement against federal programs objectives
- Programmatic decision-making
- Carry out a program of the organization
- Normal business goods/services
- Goods/services to many different purchasers
- Competitive environment
- Ancillary to federal program
- Not subject to federal program compliance requirements
Monitoring Responsibilities

- Ensure subrecipients spending > $500,000 in federal awards during the subrecipient’s fiscal year have an A-133 audit
- Issue a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report
- Ensure that the subrecipient takes appropriate corrective action
- Consider whether to adjust the University’s own records as result of any subrecipient audit findings and questioned costs
- Require subrecipients to permit the University and its auditors to have access to subrecipient’s records and financial statements as necessary for the University to comply with A-133
13. Subrecipient Monitoring

Control Objective

- To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.
Fiscal Year 2005 Subrecipient Monitoring Finding

- Finding 05-11 – Subrecipient Monitoring (R & D Cluster Major Program)
  - Reportable Condition
  - Material Weakness
  - Noncompliance
13. Subrecipient Monitoring

UM Discussion

- The University is responsible for compliance with other unique program requirements as set forth in applicable Federal regulations and the grant agreement(s).
- Includes requirements that do not fit the 13 previous types discussed.
- Most programs have at least one special test and provision.
- Generally difficult to identify.
  - Unique by definition.
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