

## **PART 1 - BACKGROUND, PURPOSE, AND APPLICABILITY**

### **BACKGROUND**

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments that administer Federal financial assistance programs. In 1985, the Office of Management and Budget (OMB) issued OMB Circular A-128, "Audits of State and Local Governments," to provide implementing guidance. In 1990, OMB administratively extended the single audit process to non-profit organizations by issuing OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations."

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC Chapter 75). The 1996 Amendments extended the statutory audit requirement to non-profit organizations and substantially revised various provisions of the 1984 Act. On June 30, 1997, OMB issued final revisions to Circular A-133 (62 FR 35278). The final revisions implement the 1996 Amendments, extend OMB Circular A-133's coverage to States, local governments, and Indian tribal governments, and rescind OMB Circular A-128.

This Compliance Supplement is based on the requirements of the 1996 Amendments and the final revision of OMB Circular A-133 which provide for the issuance of a compliance supplement to assist auditors in performing the required audits. The Senate and House Reports supporting the 1996 Amendments cited studies of the single audit process performed by the General Accounting Office, the President's Council on Integrity and Efficiency and the National State Auditors Association (NSAA). All three studies supported the need for a current compliance supplement. The NSAA study stated, "The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. This tool allows Federal agencies to effectively communicate items which they believe are important to the successful management of the program and legislative intent . . . Such a valuable tool requires constant review and update."

This document serves to identify existing important compliance requirements which the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without this Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing this Supplement is a more efficient and cost effective approach to performing this research. For the programs contained herein, this Supplement provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

This Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. For single audits, this Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

OMB Circular A-133 provides that Federal agencies are responsible to annually inform OMB of any updates needed to this Supplement. This responsibility includes ensuring that program objectives, procedures, and compliance requirements, noncompliance with which could have a direct and material effect on these individual Federal programs, are provided to OMB for inclusion in this Supplement, and that agencies keep current these program objectives, procedures, and compliance requirements (including statutory and regulatory citations). To facilitate agency efforts to meet this responsibility, Parts 4 and 5 of this Supplement provide a stand-alone section for each program included in this Supplement which contains program objectives, program procedures, and compliance requirements. For some programs a separate subsection (IV. Other Information), is also included to communicate additional information concerning the program. For example, when a program allows funds to be transferred to another program, subsection IV will provide guidance on how those funds should be treated on the Schedule of Expenditures of Federal Awards and Type A program determinations. See Appendix IV for a list of programs which contain this subsection. These individual sections can be updated or replaced as Federal programs change. Also, sections will be added for additional programs once the program objectives, program procedures, and compliance requirements relevant to the program are written.

## **PURPOSE AND APPLICABILITY (Part 1)**

### **Purpose**

This Supplement is effective for audits of fiscal years beginning after June 30, 2000, and supersedes the OMB Circular A-133 Compliance Supplement issued in March 2000.

OMB Circular A-133 describes the non-Federal entity's responsibilities for managing Federal assistance programs (§ \_\_\_\_.300) and the auditor's responsibility with respect to the scope of audit (§ \_\_\_\_.500). Auditors are required to follow the provisions of OMB Circular A-133 and this Supplement.

### **Applicability**

#### *General*

Auditors shall consider this Supplement and the referenced laws, regulations, and OMB Circulars (as codified by Federal agencies in agency regulations) in determining the compliance requirements that could have a direct and material effect on the programs included herein. That is, use of this Supplement is mandatory. Accordingly, adherence to this Supplement satisfies the requirements of OMB Circular A-133. For program-specific audits performed in accordance with a Federal agency's program-specific audit guide, the auditor shall follow such program-specific audit guide. Finally, for major programs not included in this Supplement, the auditor shall follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements which could have a direct and material effect on the program.

#### *Update of Requirements*

OMB Circular A-133 provides that Federal agencies are responsible to annually inform OMB of any updates needed to this Supplement. However, auditors should recognize that laws and regulations change periodically and that delays will occur between such changes and revisions to this Supplement. Moreover, auditors should recognize that there may be provisions of contract and grant agreements that are not specified in law or regulation and, therefore, the specifics of such are not included in this Supplement. For example, the grant agreement may specify a certain matching percentage or set a priority for how funds should be spent (e.g., a requirement to not fund certain size projects). Another example is a Federal agency imposing additional requirements on a recipient because it is high-risk in accordance with the A-102 Common Rule, or as part of resolution of prior audit findings.

Accordingly, the auditor should perform reasonable procedures to ensure that compliance requirements are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments. Reasonable procedures would be inquiry of non-Federal entity management and review of the contract and grant agreements for programs selected for testing (i.e., major programs).

#### *Safe Harbor Status*

Because the suggested audit procedures were written to be able to apply to many different programs administered by many different entities, they are necessarily general in nature. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether additional or alternative audit procedures are needed. Therefore, the auditor should **not** consider this Supplement to be a "safe harbor" for identifying the audit procedures to apply in a particular engagement.

However, the auditor can consider this Supplement a "safe harbor" for identification of compliance requirements to be tested for the programs included herein if, as discussed above, the auditor (1) performs reasonable procedures to ensure that the requirements in this Supplement are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments, and (2) updates or augments the requirements contained in this Supplement as appropriate.

#### *Responsibility for Other Requirements*

Although the focus of this Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

## **OVERVIEW OF THIS SUPPLEMENT**

### **Matrix of Compliance Requirements (Part 2)**

The Matrix of Compliance Requirements (Matrix) identifies the Federal programs and compliance requirements addressed by this Supplement and associates the programs with the applicable compliance requirements. The Matrix also identifies the applicable Federal agency and Catalog of Federal Domestic Assistance (CFDA) number for each program included in this Supplement.

### **Compliance Requirements (Part 3)**

Part 3 lists and describes the 14 types of compliance requirements and, except for Special Tests and Provisions, the related audit objectives that the auditor shall consider in every audit conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. Suggested audit procedures are also provided to assist the auditor in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether additional or alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

The compliance requirements for Special Tests and Provisions are unique to each Federal program; therefore, compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are not included in Part 3.

Consistent with the requirements of OMB Circular A-133, this Part includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case by case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

### **Agency Program Requirements (Part 4)**

For each Federal program included, Part 4 discusses program objectives, program procedures, and compliance requirements which are specific to the program. With the exception of "N. Special Tests and Provisions," the auditor shall refer to Part 3 for the audit objectives and suggested audit procedures that pertain to the compliance requirements associated with the programs. Since Special Tests and Provisions are unique to the program, the specific audit objectives and suggested audit procedures for the program are included in Part 4 with the exception of audit objectives and suggested audit procedures for internal control which are included in Part 3.

The description of program procedures is general in nature. Some programs may operate somewhat differently than described due to: (1) the complexity of governing Federal and State

laws and regulations; (2) the administrative flexibility afforded non-Federal entities; and, (3) the nature, size, and volume of transactions involved. Accordingly, the auditor should obtain an understanding of the applicable compliance requirements and program procedures in operation at the non-Federal entity to properly plan and perform the audit.

### **Clusters of Programs (Part 5)**

A cluster of programs is a grouping of closely related programs that have similar compliance requirements. The types of clusters are: Research and Development (R&D), Student Financial Aid (SFA), and other clusters. "Other clusters" are as identified in this Supplement or designated in a State award document.

Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133 (§\_\_.105). Part 5 provides compliance requirements, audit objectives, and suggested audit procedures for R&D and SFA clusters and lists other clusters.

In planning and performing the audit, the auditor should determine whether programs administered by the non-Federal entity are part of a cluster by referring to the provisions of Part 5 of this Supplement and the State award documents.

### **Internal Control (Part 6)**

As a condition of receiving Federal awards, non-Federal entities agree to comply with applicable laws, regulations, and the provisions of contract and grant agreements, and to maintain internal control to provide reasonable assurance of compliance with these requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned. Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by presenting characteristics of internal control which may be used to reasonably ensure compliance with the types of compliance requirements in Part 3. The characteristics of internal control presented in Part 6 are neither mandatory nor all inclusive.

### **Guidance for Auditing Programs Not Included in this Compliance Supplement (Part 7)**

Part 7 provides guidance to auditors in identifying the compliance requirements and designing tests of compliance with such requirements for programs not included in this Supplement.

### **Federal Programs Excluded from the A-102 Common Rule (Appendix I)**

This Appendix lists block grants and entitlement programs excluded from the requirements of the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (also known as the "A-102 Common Rule").

## **Federal Agency Codification of Certain Governmentwide Grants Requirements (Appendix II)**

This Appendix provides regulatory citations and Federal agencies' codification of the A-102 Common Rule and OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," in agency regulations. Some agencies have not yet codified the November 1993 revision to OMB Circular A-110 but either are in the process of doing so or have provided such policies to grantees through other means such as grant agreements.

## **Federal Agency Contacts for A-133 Audits (Appendix III)**

This Appendix identifies Federal agency contacts from which auditors can request information or materials about Federal programs or the audit requirements of OMB Circular A-133.

## **Internal Reference Tables (Appendix IV)**

This Appendix provides a listing of programs in Parts 4 and 5 which include "IV. Other Information." This listing allows the auditor to quickly determine which programs have other information such as guidance on Type A and Type B program determination or display on the Schedule of Expenditures of Federal Awards. Also identified in this Appendix is that the Medicaid Cluster is the only program currently identified as higher risk by OMB pursuant to Circular A-133, §\_\_\_.525(c)(2).

## **List of Changes for the 2001 Compliance Supplement (Appendix V)**

This Appendix provides a list of changes from the OMB Circular A-133 Compliance Supplement issued in March 2000 to this 2001 Supplement. Also included in this list are references to the date and page numbers for *Federal Register* notices of new regulations not yet codified.

## **Other OMB Circular A-133 Advisories (Appendix VI)**

This Appendix provides a copy of other OMB advisories. Both advisories concern the Year 2000 Issue.

## **SAS 70 Examinations of EBT Service Organizations (Appendix VII)**

This Appendix provides guidance on audits of State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations.

## **Compliance Supplement Core Team (Appendix VIII)**

This Appendix provides a listing of the Compliance Supplement Core Team members who were responsible for the production of this Supplement.

## TECHNICAL INFORMATION

### Page Numbering Scheme

The following page numbering scheme is used in this Supplement to facilitate future revisions.

Each page included in Parts 1, 2, 3 (introduction), 6 (introduction), and 7 is identified by a label that represents the part number and sequential page number. A dash (-) separates the part number from the page number. For example, Part 1 is numbered as follows: 1-1, 1-2, 1-3, and so on.

Each page included in Parts 3 (excluding introduction), 4, 5, and 6 (excluding introduction) is identified by a label that represents the part number, section number identifier, and sequential page number. For example, Section A of Part 3 is numbered 3-A-1, 3-A-2, 3-A-3, and so on. The section number identifier for Part 4 represents the CFDA number of the applicable program. For example, the Department of Labor (DOL) Unemployment Insurance program, CFDA number 17.225, is numbered 4-17.225-1, 4-17.225-2, 4-17.225-3, and so on.

### Code of Federal Regulations

The Code of Federal Regulations (CFR) is a codification of the rules issued by Federal agencies. The CFR is divided into 50 titles which comprise the broad areas subject to Federal regulation. Each title is further divided into parts and sections, with most references to the CFR being made at this level.

Portions of the CFR are revised daily and these changes are published in the *Federal Register*. However, a revised version of the CFR is published only once each calendar year, on a quarterly basis as follows: titles 1-16 on January 1, titles 17-27 on April 1, titles 28-41 on July 1, and titles 42-50 on October 1.

In the event that changes to a particular section of a title have changed since the last published update of that section, a notation is made in the List of CFR Sections Affected (LSA), which is published monthly. The LSA cites the *Federal Register* page number which contains the changes to the CFR section.

In order to obtain the most current regulations, the user should consult not only the latest version of the CFR, but also the LSA issued in the current month. The *Federal Register* home page (<http://www.access.gpo.gov/nara/>) offers links to both the *Federal Register* and the CFR. Please note that on-line versions of the CFR may not be the most current available.



## HOW TO OBTAIN ADDITIONAL GUIDANCE

Guidance to assist auditors in performing audits in accordance with OMB Circular A-133 can be obtained from the following sources.

### Office of Management and Budget

The following information is located under the grants management heading on OMB's Internet home page (<http://www.whitehouse.gov/OMB>).

- OMB publications, including OMB Circulars and this Supplement for audits under OMB Circular A-133.
- SF-SAC, *Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*.
- Codification of Certain Governmentwide Grants Requirements by Department (including the Grants Management Common Rule and OMB Circular A-110)

### General Services Administration (GSA)

Federal Domestic Assistance Catalog Staff (MVS)  
General Services Administration  
Ground Floor, Reporters Building  
300 7th Street, SW, Washington, DC 20407  
Telephone: (202) 708-5126

- Catalog of Federal Domestic Assistance (CFDA).

A searchable copy of the CFDA is available through the Internet on the GSA Home Page (<http://www.cfda.gov>). The CFDA is also available in hard copy (from the Government Printing Office), and on machine-readable magnetic tape, high-density floppy diskettes, and CD-ROM (from GSA).

### Government Printing Office (GPO)

Superintendent of Documents  
P.O. Box 371954  
Pittsburgh, PA 15250-7954  
Telephone: (202) 512-1800

- Catalog of Federal Domestic Assistance.
- Government Auditing Standards (stock number 020-000-00-265-4).
- March 2001 Circular A-133 Compliance Supplement (stock numbers: 041-001-00562-5 (paper) and 041-001-00563-3 (CD-ROM)).

## **Inspectors General**

IGnet Home Page on the Internet (<http://www.ignet.gov>).

- Inspector General Directory.
- Government Auditing Standards.
- Inspector General Act.
- Single Audit Home Page.
- Virtual Library.

## **Federal Audit Clearinghouse**

The Federal Audit Clearinghouse acts as an agent for OMB to: (1) establish and maintain a governmentwide database of single audit results and related Federal award information; (2) serve as the Federal repository of single audit reports; and (3) distribute single audit reports to Federal agencies.

The Clearinghouse maintains a site on the Internet at <http://harvester.census.gov/sac/>.