

Proposed revisions to OMB Circular A-133



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D.C. 20503

THE DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

Audits of States, Local Governments, and Non-Profit Organizations

AGENCY: Office of Management and Budget

ACTION: Proposed revisions to OMB Circular A-133

SUMMARY: This Notice proposes to revise Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," by (1) increasing the threshold for audit from \$300,000 to \$500,000, (2) increasing the threshold for *cognizant agency for audit* from \$25 million to \$50 million, and (3) making related technical changes to facilitate the determination of *cognizant agency for audit* and provide for Federal agency reassignment of *oversight agency for audit*.

DATES: All comments on this proposal should be in writing, and must be received by October 11, 2002. It is planned that the proposed revisions shall apply to audits of fiscal years ending after December 31, 2003, and earlier implementation will not be permitted.

ADDRESSES: Due to potential delays in OMB's receipt and processing of mail sent through the U.S. Postal Service, we encourage respondents to submit comments electronically to ensure timely receipt. We cannot guarantee that comments mailed will be received before the comment closing date.

Electronic mail comments may be submitted to: tramsey@omb.eop.gov. Please include "A-133 Comments" in the subject line and the full body of your comments in the text of the electronic message and as an attachment. Please include your name, title, organization, postal address, telephone number, and E-mail address in the text of the message. Comments may also be submitted via facsimile to 202-395-4915.

Comments may be mailed to Terrill W. Ramsey, Office of Federal Financial Management, Office of Management and Budget, Room 6025, New Executive Office Building, Washington, DC 20503.

A copy of the current Circular A-133 published in the *Federal Register* on June 30, 1997 (62 FR 35277), is available on the Internet at www.omb.gov and then select "Grants Management."

FOR FURTHER INFORMATION CONTACT: Terrill W. Ramsey, Office of Federal Financial Management, Office of Management and Budget, telephone 202-395-3812 (direct) or 202-395-3993 (main office) and e-mail: tramsey@omb.eop.gov.

SUPPLEMENTARY INFORMATION:

A. Increase the Threshold for Audit from \$300,000 to \$500,000 - OMB proposes to increase the audit threshold amount from \$300,000 to \$500,000.

The Single Audit Act Amendments of 1996, 31 U.S.C. 7502(a)(3), provide for the Director of OMB to review the single audit threshold and increase it as appropriate. The current audit threshold requires all non-Federal entities (States, local governments, and non-profit organizations) that expend \$300,000 or more in a year in Federal awards to have an audit conducted in accordance with Circular A-133.

As shown in the following table, an audit threshold increase from \$300,000 to \$500,000 would relieve almost 6,000 entities from the audit requirements of Circular A-133 while only exempting from audit less than one half of one percent of Federal awards expended (in dollars) by entities currently filing Circular A-133 audits.

Federal Awards Expended Range Number of Entities Filing Reports Percent of Entities Filing Reports Percent of Federal Awards Expended Within Range

Federal Awards Expended Range	Number of Entities Filing Reports	Percent of Entities Filing Reports	Percent of Federal Awards Expended Within Range
\$300,000 to \$500,000	6,000	18%	.5%
\$500,000 and above	28,000	82%	99.5%
Total	34,000	100%	100.0%

The above data was compiled by the Federal Audit Clearinghouse (FAC) from its database of Circular A-133 audit submissions for non-Federal entity fiscal years ending in 2000. The FAC database is publicly accessible on the Internet at <http://harvester.census.gov/sac>.)

Many pass-through entities use Circular A-133 audit results as a primary tool in ensuring compliance for Federal awards passed through to a subrecipient. With the proposed increase in the audit threshold, subrecipients expending between \$300,000 and \$500,000 will no longer be required to have an audit under Circular A-133 so their pass-through entities will not be able to use the Circular A-133 audit as a monitoring tool.

However, the Circular A-133 audit is only one of many subrecipient monitoring tools available and subrecipient monitoring should occur throughout the year rather than relying solely on a once-a-year audit. Monitoring activities may take various forms; however, a first monitoring tool should be identifying to the subrecipient the Federal award information (e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of Federal agency) and applicable compliance requirements. Other monitoring tools include reviewing financial and performance reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, and arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations as described in §____.230(b)(2) of Circular A-133. Factors such as the size of awards, percentage of the pass-through entity's total program funds awarded to subrecipients, the complexity of the compliance requirements, and risk of subrecipient non-compliance as assessed by the pass-through entity may influence the nature and extent of monitoring procedures. Additionally, Federal laws or regulations may impose subrecipient monitoring requirements specific to a Federal program.

The OMB Circular A-133 Compliance Supplement, Chapter 6, provides a list of typical internal controls for subrecipient monitoring. The Compliance Supplement is available on the Internet at www.omb.gov and then select "Grants Management." Additionally, OMB plans to request one or more single audit constituent groups to volunteer to develop additional tools and techniques which pass-through entities may use to monitor their subrecipients.

B. Increase the Threshold for cognizant agency for audit from \$25 Million to \$50 Million - OMB proposes to increase the threshold for cognizant agency for audit from \$25 million to \$50 million.

Currently, recipients (non-Federal entities that expend Federal awards received directly from a Federal awarding agency) which expend more than \$25 million a year in Federal awards have a Federal agency designated as their *cognizant agency for audit*. All other non-Federal entities have a Federal agency as their oversight agency for audit. (*cognizant agency for audit* and *oversight agency for audit* responsibilities are described in paragraphs §____.400(a) and (b) of Circular A-133, respectively.) The basic difference is that a *cognizant agency for audit* is required to perform certain oversight functions as listed in Circular A-133 and an oversight agency for audit is given the option to assume these responsibilities. The only responsibility the oversight agency for audit is required to perform is to provide technical advice to auditors and auditees upon request.

Of the approximately 34,000 non-Federal entities currently filing Circular A-133 audits, approximately 1,000 have a *cognizant agency for audit*. Increasing this threshold from \$25 million to \$50 million will reduce the number of non-Federal entities with a *cognizant agency for audit* assignments to approximately 500. This change will allow the Federal agencies to provide more focused audit oversight where there is the greatest risk in terms of Federal awards expended but still provide each non-Federal entity with an assigned oversight agency for audit from which to request technical advice.

(Note, whether an entity has a *cognizant agency for audit* for a fiscal year is determined based on the expenditures for that fiscal year, not whether they met the threshold for *cognizant agency for audit* in the base year (see next paragraph for discussion of "base year"). For example, under the current threshold of \$25 million, if a non-Federal entity had only \$20 million Federal awards expended in 2002, they would not have a *cognizant agency for audit* for that year even if they had greater than \$25 million in Federal awards expended in the base year of 2000. Similarly, if the *cognizant agency for audit* threshold is increased effective for fiscal years ending after December 31, 2003, only non-Federal entities with Federal awards expended greater than \$50 million will have a *cognizant agency for audit* for those years. The *cognizant agency for audit* would continue to be the Federal agency that provided the predominant amount of direct funding in the base year.)

C. Technical Change - Base Year for cognizant agency for audit Determination - OMB proposes to change the base year for *cognizant agency for audit* determination from one to two years before the start of the five year audit cognizance period. This change is needed to provide sufficient time to make *cognizant agency for audit* determinations before the start of the audit cognizance period.

Cognizant agency for audit is based upon which Federal agency provides the predominant amount of direct Federal awards funding to a recipient in the base year. For example, *cognizant agency for audit* determinations for the years 2001 through 2005 were based upon which Federal agency provided the predominant amount of Federal awards expended in the base years ending in 2000. Since Circular A-133 reports for the non-Federal entities' fiscal years ending December 31, 2000 were not required to be filed until September 30, 2001, it was not possible to produce a *cognizant agency for audit* assignment list at the start of 2001.

Under the proposed change, 2004 will be the base year for determining the *cognizant agency for audit* for 2006 through 2010. All fiscal year 2004 Circular A-133 reports are due to the FAC on or before September 30, 2005. This will provide sufficient time for Federal agencies to use the FAC database to produce a *cognizant agency for audit* list for the 2006 through 2010 audit cognizance period at the start of 2006. (Note, the base year for 2001 through 2005 will remain at 2000.)

D. Technical Change - Oversight Agency for Audit reassignment - OMB proposes to change the definition of oversight agency for audit to permit Federal agencies to make reassignments.

Currently Circular A-133 definitions do not specifically provide for the reassignment of oversight agency for audit. The proposed revision would explicitly provide for the reassignment of oversight agency for audit by Federal agencies similar to the reassignment of *cognizant agency for audit*.

Mark W. Everson

Controller

Circular A-133 is proposed to be revised as follows:

1. In the following sections, replace \$300,000 with \$500,000: §____.200(a); §____.200(b); §____.200(d); §____.230(b)(2); and §____.400(d)(4).
2. In section §____.400(a), first sentence, replace \$25 million with \$50 million.
3. Replace section §____.400(a), third, fourth, and fifth (parenthetical) sentences with the following:

§____.400 Responsibilities.

(a) * * * The determination of the predominant amount of direct funding shall be based upon direct Federal awards expended in the recipient's fiscal years ending in 2004, 2009, 2014, and every fifth year thereafter. For example, audit cognizance for periods ending in 2006 through 2010 will be determined based on Federal awards expended in 2004. (However, for 2001 through 2005, cognizant agency for audit is determined based on the predominant amount of direct Federal awards expended in the recipient's fiscal year ending in 2000).

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4. In section §____.105, definition of oversight agency for audit, add the following at the end of the definition: "A Federal agency with oversight for an auditee may reassign oversight to another Federal agency which provides substantial funding and agrees to be the oversight agency for audit. Within 30 days after any reassignment, both the old and the new oversight agency for audit shall notify the auditee, and, if known, the auditor of the reassignment."