

Effect of the American Recovery and Reinvestment Act on the Single Audit

Presentation by:

*Hugh M. Monaghan, Director,
Non-Federal Audits
U.S. Department of Education – OIG*

*Midwestern Intergovernmental Audit
Forum - Chicago, IL
September 17, 2009*

1

Objectives of this Presentation:
Provide Information about -

- The Recovery Act and its impact and coverage in Single Audits
- 2009 Compliance Supplement Coverage of Recovery Act
- Compliance Supplement Addenda relating to the Recovery Act.

2

The American Recovery and Reinvestment Act (Public Law 111-5)

A \$787,000,000,000 Package



3

The \$787 Billion is funding the following:
[Source: Recovery.gov 9/11/2009]

<u>Category</u>	<u>Amount</u> <u>(\$ Billions)</u>
Tax Relief*	\$288
State and Local Fiscal Relief	\$144
Infrastructure and science	\$111
Protecting the Vulnerable	\$81
Health Care	\$59
Education and Training	\$53
Energy	\$43
Other	\$8

4

***Tax Relief** – includes:

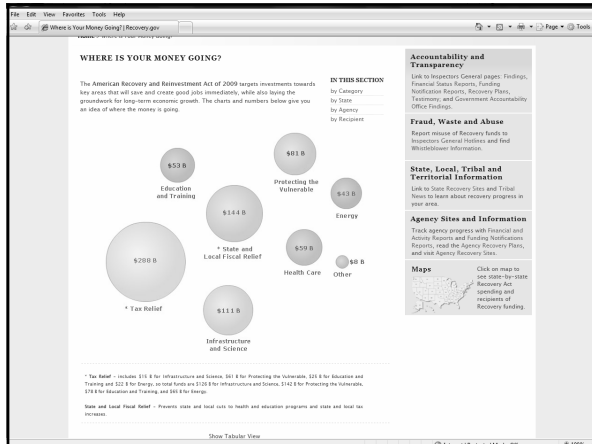
- \$15 B for Infrastructure and Science,
- \$61 B for Protecting the Vulnerable,
- \$25 B for Education and Training and
- \$22 B for Energy

so total funds are \$126 B for Infrastructure and Science, \$142 B for Protecting the Vulnerable, \$78 B for Education and Training, and \$65 B for Energy.

5

These are huge amounts of money, and thus have formidable impact on the work of auditors responsible for auditing Federal dollars.

6



Who audits these \$787 Billion of funds?

- GAO
- The Federal Inspectors General
- State Auditors
- Independent Public Accountants (CPAs and Governmental Auditors) engaged to audit state and local government and not-for-profit awardees under the Single Audit Act Amendments of 1996

Note: Also, presumably, IRS has audit responsibility regarding some of the Tax Relief provisions

Recovery Act Funding for Accountability

The Recovery Act provides a total of:

- \$25 Million to the Government Accountability Office (GAO)
- \$252.75 Million to Inspectors General for 22 funded Federal Departments and Agencies; and
- \$84 Million to the Recovery Act Accountability and Transparency Board.

The Recovery Act does not contain provisions for funding of Recovery Act related costs of Single Audits.

Required single audit costs are an allowable administrative cost, subject to applicable cost principles, procedures and program laws and regulations.

OMB has issued guidance , "Payments to State Grantees for Administrative Costs of Recovery Act Activities," dated May 11, 2009.

This may be accessed on the OMB website at:
http://www.whitehouse.gov/omb/recovery_default/

10

Annual Non-Federal Audit Conducted under Single Audit Act Amendments of 1996

[(Public Law 104-156, which amended the Single Audit Act of 1984, Public Law 98-502)]

Recovery Act Programs are covered in these required annual audits

11

Single Audits are:

- *Broad in scope*
- *A Financial and Compliance Audit, with coverage of financial and compliance internal controls.*
- *Include specific coverage of those federal programs selected as major programs under the rules of OMB Circular A-133*

12

Properly performed, Single Audits should disclose:

- *Material noncompliance for covered programs*
- *Significant deficiencies and material weaknesses in internal controls*
- *Detected Questioned Costs*

13

GAO, IG and State Auditor Audits (other than Single audits) are done in accordance with their audit plan subject to their priorities and resources, or as required by law.

Single Audits are performed annually at all State and Local Government entities and non-profit entities that expend at least \$500,000 of Federal awards (including Recovery Act awards).

14

The rules of Single Audit Process as set forth in OMB Circular A-133, the Compliance Supplement, Government Audit Standards (GAGAS), generally accepted auditing standards and applicable AICPA audit guidance apply to the conduct of single audits.

Single audit guidance specific to the Recovery Act is published in the OMB Compliance Supplement and Addenda.

15

The 2009 Compliance Supplement published by OMB and addenda to it may be accessed at:
http://www.whitehouse.gov/omb/circulars_a133_compliance_09toc/
It includes Appendix VII which provides general guidance regarding covering the Recovery Act within Single Audits.
Also, one addendum to the 2009 Compliance Supplement has been published to date. It provides specific guidance for covering Recovery Act programs within Single Audits.

16

**Summary of Significant Guidance
contained in
2009 Compliance Supplement
and
the First Addendum to it**

17

**Appendix VII to the 2009 OMB
Compliance Supplement contains
OMB's initial general guidance on
auditing Recovery Act programs
within a single audit**

18

Key Guidance in Appendix VII relates to:

- *CFDA Numbers / Identifying Recovery Act Programs*
- *Effect of Expenditures of Recovery Act Awards on Major Program Determination*
- *Award Terms and Conditions and Compliance Requirements*
- *Schedule of Expenditures of Federal Awards (SEFA)*

19

CFDA Numbers / Identifying Recovery Act Programs

Appendix advises auditors that:

- Federal agencies are required to specifically identify ARRA awards, whether or not the funding is provided under a new or existing CFDA number.
- CFDA number should be included in the grant award documents.

20

CFDA Numbers / Identifying Recovery Act Programs (cont'd)

New Recovery Act Programs—New CFDA Numbers Have Been Assigned

Existing Recovery Act Programs—Federal agencies may or may not use a new CFDA number for ARRA awards that augment existing Federal programs. They should use new CFDA Numbers for programs for which the ARRA provides for compliance requirements that are significantly different for the ARRA funding.

21

Effect of Expenditures of Recovery Act Awards on Major Program Determination

Definition: For single audits, a Cluster of Programs means a grouping of closely related programs that share common compliance requirements. Usually, under OMB Circular A-133, these are defined by OMB in the Compliance Supplement.

22

Effect of Expenditures of Recovery Act Awards on Major Program Determination

Background:

The Federal programs audited in a single audit are "Major programs."

These are selected by the auditor applying rules contained in OMB Circular A-133 that give weight to programs based on:

- level of expenditures (relative to all entity Federal awards); and
- risk factors

23

Effect of Expenditures of Recovery Act Awards on Major Program Determination

- Any cluster (e.g., Research and Development) to which a Federal Program with a new Recovery Act CFDA number has been added should be considered a new program, and thus the cluster would not qualify as low risk.

>>EXCEPTION<<

As will be discussed later, in the first 2009 Compliance Supplement Addendum, OMB indicated this is not the case for the Student Financial Aid Cluster.

- All other Federal programs with expenditures of Recovery Act awards should be considered higher risk. The auditor cannot consider them low risk, except when auditor determines and clearly documents the reasons why program is low-risk.

24

Award Terms and Conditions and Compliance Requirements

- Federal agencies are responsible for identifying ARRA awards and the applicable requirements to the recipient.
- Similarly, recipients are responsible for identifying ARRA awards and applicable requirements to their subrecipients.
- For compliance requirements unique to Recovery Act awards not included in the Compliance Supplement, auditors should:
 - (1) review the award documents, including the terms and conditions;
 - (2) check the OMB Management website under Grants Management for any addenda to this Supplement, and
 - (3) use the framework provided by the Compliance Supplement (e.g., in Parts 3, 4, 5, and 7) as guidance to identify ARRA compliance requirements material to the Federal program and determine the appropriate audit procedures.

25

Schedule of Expenditures of Federal Awards (SEFA)

- **Expenditures of Federal awards must be separately identified and reported**
 - On the SEFA
 - On SF-SAC (Data Collection Form)
 - As separate rows under Item 9 of Part III by CFDA number
 - Inclusion of the prefix "ARRA-"
 - Identifying name of Federal program
 - First characters in Item 9d of Part III
- **Recipients must require their subrecipients to do the same**

26

PART III FEDERAL PROGRAMS - Continued				
9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)
Federal Agency District # (a)	Extension # (b)			
9 3 568		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Foster Care	\$ 11,000,000.00
9 3 568		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ARRA - Foster Care	\$ 1,099,000.00
9 3 999		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ARRA - Bovines	\$ 7,567,543.00

27

June 2009 Addendum to 2009 Compliance Supplement

The first (and to date, only) addendum to the 2009 OMB Compliance Supplement was issued by OMB for use for audit periods beginning after June 30, 2008.

As with the 2009 Compliance Supplement itself, it may be accessed from:

http://www.whitehouse.gov/omb/circulars_a133_compliance_09toc/

Additional addenda may be issued. Check this website for any additional postings.

28

June 2009 Addendum – Contents

- Updated table of Contents for entire 2009 Supplement with Addendum including Recovery Act Programs
- A complete new Part 2 matrix that includes new Recovery Act programs and new clusters and clusterings as a result of Recovery Act.
- Revisions and additions to Part 3 Compliance requirements and Suggested Audit procedures that apply across-the-board to any programs for which types of compliance requirements are applicable. *

* covered later in this presentation

29

June 2009 Addendum – Contents (cont'd)

- Revises Part 4 to revise make changes/additions resulting from Recovery Act
- Revises Part 5 with information about Student Financial Assistance Cluster* and to update the listing of Clusters to reflect changes as a result of the Recovery Act.
- Revises Part 6 to include new guidance* for major programs with expenditures of Recovery Act awards

* covered later in this presentation

30

**Noteworthy Additions
To the
2009 Compliance Supplement
Contained in the
First (June 30, 2009) Addendum**

31

Part 3
Revised to Provide Coverage as follows:

- A. Activities Allowed and Disallowed
ARRA prohibition for expending costs for any casino or gambling establishment, aquarium, zoo, golf course, or swimming pool
- D. Davis Bacon Act
Recovery Act Section 1606 Davis-Bacon requirements
- I. Procurement and Suspension and Debarment
Recovery Act Section 1605 Buy American Act Requirements
- L. Reporting
Says Section 1512 Reporting Requirements will be covered in a subsequent addendum

32

Part 3
Revised to Provide Coverage as follows (cont'd):

- M. Subrecipient Monitoring
Recovery Act Section 1512(h) requirements for Central Contractor Registration requirements
- N. Special tests and Provisions
 - Requirement for Separate Accountability for Recovery Act Funding
 - Proper Presentation on the Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form of Recovery Act Awards
 - Fulfillment by pass-through entities of requirements that they properly identify subawards of Recovery Act awards to subrecipients, and require subrecipients to properly present them on their SEFA and Data Collection Form

33

Part 5 - re: Student Financial Aid Cluster

Added to "Other Information":

Provisions of Appendix VII of the 2009 Compliance Supplement in the section entitled, *Effect of Expenditures of ARRA Awards on Major Program Determination*, do not apply to the SFA cluster.

On the Schedule of Expenditures of Federal Awards (SEFA), all expenditures for the Federal Pell Grant and College Work Study Programs should be reported as part of the SFA cluster under CFDA 84.063 and 84.033, respectively.

Part 6

Adds guidance for covering internal controls of Recovery Act Awards to:

- Stresses the importance of internal controls and properly performing required work relating to them.
- Encourages early interim reporting by the auditor to management and those charged with governance of significant deficiencies and material weaknesses in internal controls relating to ARRA funding; and
- Provides guidance to – when evaluating internal controls – consider the "capacity" of the auditee to manage Recovery Act awards that result in material funding increases.

OMB Recovery Act Implementing Guidance contains the following noteworthy provisions:

- OIGs will perform follow-up reviews of Single Audit quality with emphasis on Recovery Act funds and report the results on Recovery.gov.
[Item 5.7 of "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009", M-09-15, dated April 3, 2009.]
- For fiscal years ending September 30, 2009 and later, all Single Audit reports filed with the Federal Audit Clearinghouse (FAC) will be made publicly available on the internet.
[Ibid., Item 5.8]

In OMB's April 3, 2009 Recovery Act Implementing Guidance, the following question is presented :

5.6 What audit tools will be used to drive accountability for Federal awards under the Recovery Act?

Single audits are the first tool mentioned in the response.

37

Objectives of this Presentation:
Provide Information about -

- The Recovery Act and its impact and coverage in Single Audits
- 2009 Compliance Supplement Coverage of Recovery Act
- Compliance Supplement Addenda relating to the Recovery Act.

38

Thank you!

hugh.monaghan@ed.gov
Telephone: 215-656-6246

39
