



# FINANCIAL ASSISTANCE LETTER

This Financial Assistance Letter is issued under the authority of the Procurement Executives of DOE and NNSA

## **Subject: OMB Circular A-133 Audits and the Federal Audit Clearinghouse**

### **What is the Purpose of this Financial Assistance Letter (FAL)?**

This FAL provides Contracting Officers (COs) and personnel working on grants guidance regarding the use of A-133 audits and the Federal Audit Clearinghouse (FAC). The purpose of the FAL is to ensure that 1) potential recipients are screened prior to award for submission of the audit and for qualified or adverse opinions in the audit; 2) audits with questioned items are reviewed and management decisions issued; and 3) that submission of audits and questioned costs are reviewed during the closeout process.

### **How will this FAL Change My Work Processes?**

COs will need to check the FAC while performing the business and financial management review prior to award and also during the closeout process for audit submission and disposition of any questioned costs (if applicable). In addition, COs will need to review and, if applicable, approve corrective action plans on audits that have questioned costs or other identified problems. COs will need to monitor compliance with the corrective action plan and update the tracking system.

### **What is Needed to Implement this FAL?**

Each Procurement Office will need to implement a system to log and track actions taken on problem audits. If the Office is the lead agency for a recipient with questioned costs or other audit problems, a lead individual shall be designated to coordinate the corrective action plan review and approval with other affected agencies and DOE offices.

### **When is this Financial Assistance Letter (FAL) Effective?**

This FAL is effective 10 days from date of issuance.

### **When Does This FAL Expire?**

This FAL remains in effect until superseded or canceled.

### **Who is the Point of Contact?**

Contact Jackie Kniskern of the Office of Procurement and Assistance Policy by telephone at (202) 586-8189 or by email at [jacqueline.kniskern@pr.doe.gov](mailto:jacqueline.kniskern@pr.doe.gov).

### **What is the Background?**

OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations", provides specific policy, procedures and criteria which Federal agencies, auditees and auditors are required to follow for the conduct and review of a single audit for all Federal funds received by a recipient during the recipient's fiscal year. A single audit is required of a recipient of Federal funds when the total of funds expended exceeds \$500,000. The Circular sets standards for consistency and uniformity of the audits. The requirements of Circular A-133 are incorporated into DOE's financial assistance regulations at 10 CFR 600.126 and 10 CFR 600.226.

The single audit is intended to be a cost-effective method of auditing recipients of Federal funds. Independent auditors are required to assess the financial statements of the auditee and provide an opinion on the statements, schedule of expenditures and the internal controls and compliance in financial reporting of the auditee. The single audit is not intended to provide detailed coverage of each individual award, but an overall picture of the financial statements and internal controls of the recipient.

The FAC serves as the central collection point, repository, and distribution center for single audit reports. Recipients submit paper copies of their financial statements with the auditor's report to the FAC under the cover of Standard Form SAC (SF-SAC) "Data Collection Form for Reporting on Audits of States, Local Governments and Non-profits Organizations." The SF-SAC contains information on the auditee, the Federal programs funds are received from, the auditor and the auditor's opinion of the financial statements. The SF-SAC is posted on the Internet at <http://harvester.census.gov/sac>. Paper copies of the audit package are forwarded to agency points of contact when the SF-SAC indicates that there are audit findings and the agency has funded the auditee during the time period the findings cover.

The FAC is currently a paper and internet based system with plans to become completely paperless over the next few years. The web-based portion contains access to all SF-SACs submitted since 1997 for States, Local Governments and non-profit organizations. Between 1997 and 2003, the threshold for obtaining a single audit and submission to the FAC was \$300,000. The threshold was raised to \$500,000 for fiscal years ending after December 31, 2003.

**What is the Guidance Included in the FAL?**

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## **I. Audit Requirements**

### **A. General**

All States, Local Governments and Non-Profit Organizations that expend over \$500,000 in Federal funds in any year are required to have a single audit conducted in accordance with OMB Circular A-133. This requirement flows down to subrecipients that meet the dollar threshold. An independent auditor shall perform the audit in accordance with the Government Auditing Standards and must: 1) audit and provide opinions on the fair presentation of the financial statements and the schedule of expenditures of Federal awards; 2) gain an understanding of internal control over Federal programs and 3) audit and provide an opinion on compliance with requirements for major programs.

Any entity that does not meet the threshold for expenditures is not required by OMB Circular A-133 to have a single audit performed. However, if a Contracting Officer determines special circumstances make a review or audit necessary, such a requirement should be included in the terms and conditions of the award as a special condition.

#### **i. Audit Objective**

The single audit provides an independent, cost-effective tool for obtaining information on the recipient's financial management practices and administration of Federal funds. The audit does not provide detailed information on individual awards but will show whether or not the recipient has an adequate accounting system and management controls, financial statements prepared in accordance with general accepted practices, and accurate and reliable reports and expenditure of Federal funds in accordance with Federal laws and regulations.

#### **ii. Reporting Requirements**

The Single Audit Report is submitted to the Federal Audit Clearinghouse (<http://harvester.census.gov/sac>) via the Internet and Standard Form SAC (SF-SAC) "Data Collection Form for Reporting on Audits of States, Local Governments and Non-profits Organizations."

The single audit report includes:

- the financial statements;
- a schedule of expenditures of Federal awards;
- auditor's opinions on the fair presentation of the financial statements and schedule of expenditures of Federal awards;
- auditor's report on internal control and compliance pertaining to financial reporting;
- auditor's report on internal control and opinion on compliance pertaining to major programs;

- auditor's schedule of findings and questioned costs;
- auditee's corrective action plans; and
- a summary schedule of prior audit findings which includes planned and completed corrective actions.

## **B. Recipient and Auditor Responsibilities**

### **i. Recipient Responsibilities**

Recipients are responsible for managing their Federal awards. This is accomplished by establishing and maintaining internal controls that provide assurances that all requirements can be met; establishing and maintaining an accounting system that uses general accepted accounting principles and that can adequately accumulate and segregate costs; and promptly and accurately preparing financial statements and other related documents.

Recipients are responsible for identifying Federal awards received and expended and for preparing financial statements and a Schedule of Expenditures of Federal Awards. Recipients are responsible for ensuring that the audit required by OMB Circular A-133 is completed and submitted to the Clearinghouse on SF-SAC within nine months of the end of its fiscal year.

Recipients are responsible for retaining an independent auditor; providing the auditor with all necessary information for the audit; and submitting the audit to the Clearinghouse.

Recipients are responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the recipient shall prepare a summary schedule of prior audit findings. The recipient shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected. Subpart C, Section .315 of OMB Circular A-133 provides specifics on the summary schedule and the correction action plan.

Recipients are also responsible for monitoring sub-recipients that are required to submit an audit based on the expenditure of Federal funds under their project.

### **ii. Auditor Responsibilities**

The auditor is responsible for performing the audit in accordance with generally accepted government auditing standards, i.e. "The Yellow Book"; assessing whether the auditee has complied with laws, regulations and agreement provisions

that have a direct effect on the Federal programs where funds have been expended; testing the internal controls and financial management systems; and follow-up on prior audit findings and assess the reasonableness of the corrective plans and actions.

The auditor is responsible for preparing a report which includes an opinion on whether the financial statements are presented fairly; statements on internal controls; a statement on compliance which includes an opinion as to whether the auditee complied with the law, regulations and agreement provisions; and a schedule of findings.

Audit findings are required to include: (1) a deficiency in internal controls; (2) a material noncompliance with the laws, regulations or agreement provisions; (3) detected fraud; (4) misrepresentation of the status of a prior finding; (5) questioned costs which exceed \$10,000 for non-major programs; and (6) questioned costs which exceed \$10,000 for each type of compliance requirement for major programs.

The auditor is required to assist the recipient in the preparation of SF-SAC by completed specific components and sections.

### **iii. Responsibilities of Pass-Through Entities**

A pass-through entity is responsible for monitoring its subrecipient(s) and ensuring that those that expend Federal funds meet the requirements of OMB Circular A-133. A pass-through entity is also required for preparing management decision(s) on subrecipient audit findings.

## **C. Agency Responsibilities**

Federal agencies are responsible for ensuring that audits are completed and reports received in a timely manner and in accordance with the requirements of this part; for providing technical advice and counsel to auditees and auditors as requested; and for issuing a management decision on audit findings within six months after receipt of the audit report; and for ensuring that the recipient takes appropriate and timely corrective action. Agencies are also responsible for providing annual updates to the A-133 compliance supplement.

An agency may have additional responsibilities depending on the amount of funding provided to a recipient. An agency is given the designation of cognizant agency or oversight agency if it has provided the most direct funding to the recipient. The cognizant designation is used when the funding level is over \$25 million.

If a program specific audit is required, the agency is responsible for all levels of agency responsibilities. This includes providing program specific audit requirements.

#### **D. Contracting Activity Responsibilities**

Each Contracting Activity is responsible for ensuring agency compliance with the requirements of OMB Circular A-133 at the local level. Each Contracting Activity should designate a responsible person for retrieving audits with findings under that activity's cognizance. The named person will be required to have a password and user ID for the secured portion of Clearinghouse database. Passwords and user IDs should be coordinated through Jacqueline Kniskern.

Each Contracting Activity should implement and maintain a tracking system that ensures that audit findings and recommendations are monitored through resolution for each recipient that reports audit findings that affect awards made at that activity. SF-SAC Part III, Item 9 identifies the Federal agencies which have relevant findings in the audit report. The tracking system should be able to track the recipient, the fiscal year(s) and the stage of completion of the correction action plan(s). The system should be searchable to aid in the completion of management reports required by OMB Circular A-133.

#### **E. Contracting Officer Responsibilities**

The Contracting Officer is responsible for including the appropriate audit requirements in the award instrument; monitoring compliance with audit requirements; reviewing problem audits; and approving and monitoring corrective action plans to resolve audit findings and recommendations. The Contracting Officer should ensure that audits are completed and submitted as part of the administration of the award's reporting requirements.

### **II. Other Uses for the Clearinghouse**

#### **A. Pre-Award**

Contracting Officers are responsible for determining the business and financial management capabilities of potential recipients. The SF-SAC in the Clearinghouse database can assist the Contracting Officer in making the determination that a potential recipient has an acceptable accounting system and internal controls.

Contracting Officers should check the database for previous audit reports, questioned costs, corrective action plans and their resolution and document the file with the findings from the review. Copies of the supporting audits may be obtained from the Clearinghouse if not previously received by the Contracting Officer.

Potential recipients with prior audit findings and corrective action plans should be considered for special conditions, payment by reimbursement or other controls to ensure that the funding is properly used.

### **B. During the Project Period**

Continuation Awards – The Clearinghouse should be checked just as in the pre-award phase. Recipients that were held to special conditions or controls and that have shown improvement in their audits, should have those conditions or controls lessened or removed. New conditions or controls should be placed on recipients that have had negative audit findings since the start of the project or that have not submitted the audit(s).

### **C. Post-Award and Close-out**

Audits should be reviewed during the close-out process to ascertain if any negative audit findings will affect the agreement. An agreement should not be retired if the audit findings would impact the budget or other terms and conditions.

## **III. Tips for Reviewing the Single Audit Report or SF-SAC**

Page I identifies the organization audited and the auditor, the fiscal year of the audit and the period covered by the audit.

Page 2 identifies which grant making agency has cognizance over the organization and information on the audit itself. Part II, Financial Statements, will identify the outcome of the audit and the type of opinion provided by the auditor. The best audit is the unqualified opinion; the other types indicate a problem of some type. Part III, Federal Programs, identify which agencies have provided funding that falls under an audit finding.

Page 3 continues Part III and provides more information about Federal Awards expended during that fiscal year/audit period. Specific findings on each Federal Program and/or award are identified.

When an audit is submitted with a finding, the financial statements and audit are provided to the agencies that provided funding for that fiscal year.