

CHAPTER 11

OMB Circular A-133 SINGLE AUDIT REPORT

Introduction

The Single Audit Act and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires non-federal entities that expend equal to or in excess of \$500,000 in federal awards within a fiscal year (July 1 - June 30) to have an audit performed in accordance with the Single Audit Act.

This chapter addresses what the OMB A-133 Single Audit is, what the basic requirements are, what the submission requirements are and how this is related to “eligible applicants” for CDBG funding, and how the CDBG program manages audit findings of our grantees.

Section 1 - Grantee Responsibilities

As a grantee of federal funds, you must be in compliance with Federal and State audit rules. This section covers what is required, when it is required, and outlines how to prepare for and respond to an audit.

A. Audit Requirements

1. Definitions: *Non-Federal entity* means a State, local government, or nonprofit organization.

Federal award means federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, funded under awarded grants or contracts, for buying goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract.

2. Requirements: Pursuant to the Office of Management and Budget (OMB) Circular A-133, non-federal entities that expend less than \$500,000 in federal awards (beginning January 1, 2004) are exempt from federal audit requirements for that year, except as noted under section .215, “Relation to Other Audit Requirements,” in the Circular. However, other State or contract audit requirements might apply. **A letter to the SCO declaring an exemption from federal audit requirements is required.** There is no form from SCO for this purpose. (See Audit Submittal below for address).

Please Note:
Grantees are also responsible for obtaining audits from subrecipients, when applicable, that expend CDBG funds to operate CDBG activities (projects or programs). The grantee must confirm that the reporting subrecipients are conducting the required annual audits in accordance with current grantee policies and OMB Circular A-133

Non-federal entities that expend \$500,000 or more in a fiscal year in federal awards shall have a single audit conducted in accordance with the “Scope of Audit” section in the Circular.

The jurisdiction’s auditor must follow the applicable OMB Circular to complete the audit. (See other references in Section 5.)

If the jurisdiction has given CDBG funds to a nonprofit organization (e.g., to operate an emergency shelter) via a subrecipient agreement, then the jurisdiction is responsible for ensuring that the nonprofit agency is in compliance with OMB Circular A-133. This includes monitoring the agency and ensuring that it submits a single audit, if required, and monitoring the resolution of any audit findings.

B. Preparing for an Audit

This explains the basic process to prepare for an audit when one is required.

1. Scheduling Audits: When an audit is required, the audited must submit a data collection form and a reporting package in accordance with section .320, “Report Submission,” in the Circular. The reports shall be submitted within the earlier of 30 days after receipt of the auditor’s report(s) or nine months after the end of the audit period. To meet the timing requirement for submission and NOFA application eligibility, a complete A-133 must be submitted to **both** the Federal Clearinghouse and the California State Controller’s Office (SCO) on or before March 31, 2012 of each year for the fiscal year ending the prior June 30. (See Audit Submittal below for further submission instructions and requirements).
2. Selecting an Auditor: The selection of an outside Certified Public Accounting (CPA) firm must be consistent with procurement standards prescribed by Attachment O of OMB Circular A-102.

The American Institute of Certified Public Accountants (AICPA) requires that a financial audit be completed by an independent auditor. The audit should not be completed by anyone on the jurisdiction’s staff or governing body.

3. Assembling Records: Prior to the arrival of the auditor, assemble the following CDBG records and files:
 - a) Financial reports submitted to the Department and those received from sub grantees.
 - b) All audit reports issued in the past two years.
 - c) The CDBG contract.
 - d) Copies of the CDBG State Regulations, OMB Circular A-87, GAO’s Guidelines for Financial and Compliance Audits of Federally Assisted Programs and this Grant Management Manual.

- e) All major contracts, such as leases, employment agreements, and major purchase commitments entered into by the organization.
 - f) Cost allocation plan and SCO-approved indirect cost rate plan, if applicable.
 - g) Source documents, books of original entry and final entry, and worksheets.
4. **Exit Interview:** At the completion of the audit, the auditor should hold an exit conference. At the exit conference, the auditor will present the preliminary opinions and findings (both negative and positive). The jurisdiction should prepare a written response indicating agreement or disagreement to each finding. The response should include the jurisdiction's plans to resolve the findings and/or reasons for disagreement. The auditor will respond to the jurisdictions response in the audit.
5. **Audit Submittal:** In addition to requiring that the complete audit package be sent to the Federal Clearinghouse, OMB Circular A-133, Subpart C, .320(e) - "Additional Submission by Subrecipients" also requires "...auditees that are also subrecipients shall submit to each pass-through entity, one copy of the reporting package..." In the case of CDBG funding, the Department is the pass-through entity, however, California state law (SAM 20700) states that the SCO is the designated agency for OMB A-133 compliance for local governments, thus grantees are required to submit their completed audit to the SCO at the address below. A copy of the A-133 Single Audit package should not be sent directly to CDBG.

SCO A-133 submission address:

**State Controller's Office
 Division of Audits
 Financial Audits Bureau/Single Audits Unit
 P.O. Box 942850
 Sacramento, CA 94250-5874**

Deadline for submission to the SCO for NOFA application eligibility purposes is the NOFA application due date each fiscal year. The SCO will review all submissions and notify grantees and the Department of any technical compliance issues and will add the jurisdiction's name and A-133 status to the Status List. The Department will check this list after 5:00 PM on the application due date to determine applicant eligibility. Applicants determined to be eligible will have an opportunity to present documentation to prove that they were in compliance with the SCO submission requirement prior to the application due date.

State Administrative Manual 20700 requires that **all local governments submit their complete A-133 Single Audit packages to the State Controller's Office (SCO)**. For further information see: <http://sam.dgs.ca.gov/TOC/2000/20070.htm>

And, for further information on the SCO submission, see SCO's webpage at: http://www.sco.ca.gov/aud_single_audits.html

For NOFA application eligibility, SCO must be in receipt of the jurisdiction's complete A-133 Single Audit package by the NOFA application due date each year.

6. Payment of Audit Costs: Pursuant to OMB Circular A-133 and A-87, the percentage of costs charged to Federal awards for a single audit shall not exceed the percentage derived by dividing federal funds expended by total funds expended by the recipient (including program matching funds) during the fiscal year. This percentage may only be exceeded if appropriate documentation demonstrates higher actual costs.

Please refer to the “Audits Costs” section of the Circular for audit costs that cannot be charged to CDBG grants.

C. Resolving Audit Findings

The Department is responsible for reviewing all State CDBG grantee audit findings and issuing a Management Decision Letter to grantees with findings within 180 days from the date the audit was received by SCO. The Management Decision Letter will list all CDBG findings, per the A-133 Single Audit Report, and the Department’s required corrective action. This action may include the repayment of disallowed costs.

The Management Decision Letter will also give the grantee a period of time to correct and submit the supporting documents that show the grantee has policies and procedures in place that will ensure future findings are mitigated.

The Department will review the response and, if in agreement, will notify the jurisdiction in writing that the finding(s) have been resolved (Clearance Letter). The Department will continue to support the grantee in implementing all necessary safeguards to help ensure compliance with federal, CDBG requirements.

Resolution of audit findings is very important. Lack of timely response could result in a loss of points on future CDBG applications.

Section 2 – Common Problems

- Records not maintained on a current basis or not kept in accordance with standards contained in the State regulations;
- Not recording all receipts (e.g., CDBG advances, loan application fees, rental income, program fees, bid deposits, etc.);
- Bank reconciliations and subsidiary ledgers not maintained (such as rehabilitation loan ledgers that accurately identify amounts borrowed, payments, additions and balances);
- Financial data, as shown on performance reports, not reflecting the records;
- Late or missing reporting requirements;
- Unsupported or insufficient support for payments;
- Expenditures made prior to the date the Department signed the grant agreement;
- Program income not used for approved CDBG activities; or,

- Funding of projects outside approved geographic boundaries described in the application.

Section 3 – Department’s/State’s Role

Once the audit is completed, counties and cities must submit the completed annual audit to the SCO (“complete” is determined by SCO and must include all parts of the audit required by SCO). The audit will be reviewed for technical accuracy, and the SCO will notify the grantee if the audit does not meet the financial and compliance audit requirements of generally accepted governmental auditing standards.

Non-submittal or incomplete submittal to the SCO may result in the following actions, if not corrected:

- Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- Withholding or disallowing overhead costs;
- Suspending Federal awards until the audit is conducted; or,
- Terminating the grantee’s Federal award.

Section 4 - CDBG Application Threshold Requirement

The State CDBG Program’s annual Notice of Funding Availability (NOFA) contains details of application thresholds related to the OMB A-133 Single Audit requirements. Per 25 CCR 7060(a)(4), and as noted above, **all prospective applicants must be in compliance with OMB A-133 Single Audit *submission* requirements at time of application.** The Department will determine eligibility by communicating directly with SCO, either via their on-line Status Report or via discussing applicant’s submission status directly with SCO staff.

For NOFA eligibility purposes, OMB A-133 Single Audit reports are due to the State Controller Office (SCO) nine months after the entity’s fiscal year end (Reference: OMB Circular A-133, “Report Submission” section, items (e) and (f).). For most California entities, **reports are due March 31st of each fiscal year.** As noted earlier, the State Administrative Manual §20700, states that the California Department of Finance designated SCO as the coordinating agency for A-133 compliance for all pass-through entities.

The annual CDBG NOFA and Application will provide the most up to date web-link to the SCO status report so every prospective applicant will have an easy and effective method by which they can check and confirm SCO’s acceptance of their OMB A-133 Single Audit report. Compliance is a CDBG application threshold requirement; therefore this information should be carefully checked and confirmed before the CDBG application is submitted.

Applicants will be considered “in compliance” as of the date of the CDBG application deadline if the SCO’s Single Audit Status Report shows their jurisdiction’s audit listed under one of the following Desk Review Statuses: **Accepted, In Process, Exempt, or No Review.** Jurisdiction audits showing any other Desk Review Status will be *ineligible* to apply.

To ensure accuracy and provide each jurisdiction the fullest opportunity to meet this threshold requirement, once CDBG staff has verified each applicant's status using the SCO status report, CDBG will submit a list of potentially *ineligible* applicants to the HCD Audit Department along with a request that the SCO be contacted to confirm the accuracy of the OMB A-133 report status as of the specific date of CDBG application deadline.

Applicants determined to be ineligible due to being out of compliance with the submission requirements of SCO will be given an opportunity to provide evidence to the contrary.

Section 5 - References

- State CDBG Regulations, Section 7122, contains the audit requirements for the State CDBG Program (http://www.hcd.ca.gov/fa/cdbg/State_CDBG_Regulations_August_2012.pdf).
- Government Auditing Standards (Yellow Book) published by the U.S. General Accounting Office contains audit standards for the audit of organizations receiving Federal funds for their programs, activities, functions, and for Federal funds received by contractors, nonprofit organizations, and other external organizations (<http://www.gao.gov/yellowbook>).
- OMB Circular A-87 establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments (governmental units) (http://www.whitehouse.gov/omb/circulars_a087_2004/).
- OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments describes the auditing requirements for local jurisdictions (<http://georgewbush-whitehouse.archives.gov/omb/circulars/a102/a102.html>).
- OMB Circular A-122, Cost Principles for Non-Profit Organizations establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations (http://www.whitehouse.gov/omb/circulars_a122_2004/).
- OMB Circular A-133 requires that the audit of State, local governmental, and nonprofit organizations, programs, activities, and functions performed by State or local government auditors or by public accountants be made in accordance with General Accounting Office audit standards (http://www.whitehouse.gov/sites/default/files/omb/assets/a133_compliance/arra_addendum_1.pdf).
- Public Law 98-502 - the Single Audit Act of 1984.
- Federal Audit Clearing House (<http://harvester.census.gov/sac/>).
- California State Controller's Office (SCO) (http://www.sco.ca.gov/aud_single_audits.html#middle_column).
- California State Administrative Manual (SAM) (<http://sam.dgs.ca.gov/TOC/20000/20070>).