

Single Audit Revisions and the Impact on Nonprofit Organizations

March 13, 2014

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Upcoming webinar

- Announcing our upcoming webinar on May 29th from noon to 1:00pm presented by Jenifer Keiser, CPA and Amy MacFadyen, CPA entitled

#IsYourOrganizationTrending

Leveraging Social Media and IT to Benefit Your Organization

Speakers

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Objectives

- Gain a general understanding of the format of the new single audit guide.
- Learn certain key changes and their impact on nonprofit organizations.
- Understand the changes to the data collection form and how the filing of the form has changed.

Revised Single Audit Guide



Background/Development of the Revised Single Audit Guide

The development of the revised guide reflects input from more than two years of work by the federal and non-federal financial assistance community, led by the Council on Financial Assistance Reform (COFAR).

COFAR, created by the federal Office of Management and Budget (OMB), is an inter-agency group of the Executive Branch.

- **February 2011** – OMB was directed (by the President) to streamline the guidance for federal awards to ease the administrative burdens and strengthen oversight over federal funds to reduce risks of waste, fraud and abuse.

OMB worked with COFAR to address these directives.

Background/Development of the Revised Single Audit Guide (cont'd.)

- **February 2012** – OMB Advance Notice of Proposed Guidance *Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (Including Single Audit Act)*
- **April 2012** – AICPA/ GAQC issued comment letter on suggested changes
- **February 2013** – (Revised) OMB Notice of Proposed Guidance *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*
- **June 2013** – AICPA/ GAQC issued comment letter on suggested changes
- **Finalized on December 26, 2013** – published in the federal register at <http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf> (will apply to audits of FY beginning on or after December 26, 2014; for practical purposes, FYE December 31, 2015).

Summary of Key Changes

- Streamlining of Related Circulars
- Changes to Administrative Principles
- Changes to Cost Principles
- Change in Audit Threshold
- Change in Type A Threshold
- Changes to Report Findings
- Changes to Data Collection Form
- Streamlining of Compliance Requirements (expected to be added to 2014/2015 compliance supplement)

Streamlining of Related Circulars

Currently:

- A-21 Cost Principles for Educational Institutions
- A-50 Audit Follow-Up, related to Single Audit
- A-87 Cost Principles for State, Local, and Indian Tribal Governments
- A-89 Federal Domestic Assistance Program Information
- A-102 Awards and Cooperative Agreements with State and Local Governments
- A-110 Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- A-122 Cost Principles for Non-Profit Organizations
- A-133 Audits of States, Local Governments and Non-Profit Organizations

Streamlining of Related Circulars (cont'd.)

Summary of New Guide Format

Located in OMB, Title 2 of the Code of Federal Regulations

Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

- **Subpart A** – Acronyms and Definitions (**sec. 200.00 – 200.99**)
- **Subpart B** – General Provisions (**sec. 200.100 – 200.113**)
- **Subpart C** – Pre-Federal Award Requirements and Contents of Federal Awards (**sec. 200.200 – 200.211**)
- **Subpart D** – Post-Federal Award Requirements (**sec. 200.300 – 200.345**)
- **Subpart E** – Cost Principles (**sec. 200.400 – 200.475**)
- **Subpart F** – Audit Requirements (**sec. 200.500 – 200.521**)
- **Appendix** – I through XI

Streamlining of Related Circulars (cont'd.)

Summary of New Guide Format

- Consolidate administrative circulars into single document: **(subparts B, C and D)**
 - OMB Circular A-102: Applies to State and Local Governments
 - OMB Circular A-110: Higher Education, Hospitals, Other Non-Profit Organizations
 - OMB Circular A-89: Catalog of Federal Domestic Assistance
- Consolidate cost principles into single document: **(subpart E)**
 - OMB Circular A-21: Educational Institutions
 - OMB Circular A-87: Governments
 - OMB Circular A-122: Non-Profit Organizations

Changes to Administrative Principles

- Subpart B – General Provisions
 - **Section 200.102** - On a case-by-case basis, OMB will waive certain compliance requirements and approve new strategies for innovative program designs that improve cost effectiveness and encourage effective collaboration across programs to achieve outcomes
 - **Section 200.112** - Conflicts of interest - Required to disclose in writing any potential conflict-of-interests to federal awarding or pass-through agencies
- Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards
 - **Section 200.201** - Additional situations where compliance requirements will be minimized in favor of requirements to meet performance milestone

Changes to Administrative Principles (cont'd.)

- Subpart D – Post-Awards Requirements
 - **Section 200.301** - Performance measurement provides more robust guidance to Federal agencies to measure performance in a way that will help the federal awarding agency improve program outcomes, share lessons learned, and spread the adoption of promising practices.

Changes to Cost Principles

- Subpart E – Cost Principles – generally the new guidance treats more cost items as Direct Costs, which are more likely to be reimbursed than Indirect Costs.

Section 200.413 - Makes guidance consistent so that administrative costs may be treated as direct costs when they meet certain conditions.

Example: Salaries of administrative or clerical personnel would normally be indirect costs, but could be considered a direct costs when the following characteristics are present:

- Service integral to project
- Individual can be specifically identified
- Costs are reflected in budget
- Excluded from indirect costs (not charged as both direct and indirect costs)

Changes to Cost Principles (cont'd.)

Example: Computing devices and equipment would normally be treated as tangible personal property and be considered a capital asset, but could be classified as supplies and treated as direct cost if the acquisition cost is less than the lesser of:

- the capitalized level established by the organization for financial statements purposes, or
- \$5,000

Changes to Cost Principles (cont'd.)

Section 200.414

- Provides a *de minimus* indirect cost rate of 10% of direct costs to those entities that have never had a negotiated indirect cost rate.
- Requires pass-through entities to provide an indirect cost rate to subrecipients (could be the *de minimus* 10% rate stated above).
- Also requires all federal agencies to accept an indirect cost rate approved by another federal agency.
- Allows a one time extension for federally approved rates for a period of up to 4 years.

Changes to Cost Principles (cont'd.)

Section 200.430 - Compensation - Personal Services

- Charges to federal awards for salaries must be based on records that accurately reflect the work performed and meet the following standards:
 - Supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated
 - Be incorporated into the official records of the organization
 - Reasonably reflect the total activity (100% of federal and non-federal activity)
 - Comply with accounting policies of entity

Changes to Cost Principles (cont'd.)

Section 200.430 - Compensation - Personal Services (continued)

- Budget estimates alone do not qualify as support for charges of federal awards, but may be used for interim accounting purposes, provided that:
 - The system for establishing the estimates produces reasonable approximations of the activity actually performed
 - Significant changes in the corresponding work activity are identified and entered into the records in a timely manner
 - The system of internal controls includes processes to review after-the-fact interim charges and adjustments are made timely so that final amounts charged to the federal award is accurate, allowable, and properly allocated.

Other laws must be adhered to; ex: Fair Labor Standards Act (FLSA) requires charges for the salaries and wages of nonexempt employees to include the total number of hours worked each day

Polling Question 1

- Does your nonprofit organization have a federal indirect cost rate?

Yes

No

Change in Audit Threshold

Section 200.501

- Increase audit threshold from \$500,000 to \$750,000 (original proposed changes suggested \$1 million)
- 99% of dollars that are currently subject to A-133 would still be covered
- Eliminates approximately 5,000 out of the 37,500 entities currently subject to audit

Change in Type A Threshold

Section 200.518 (b) (1)

- The minimum Type A threshold for major program determination increases from \$300,000 to \$750,000 (federal expenditures up to \$25 million)
- Threshold for Type A now the same as threshold to determine if a single audit is needed
- Chart with thresholds for larger organizations is on the next page

Change in Type A Threshold (cont'd.)

Total Federal Awards Expended	Type A/B Threshold
Equal to \$750,000 but less than or equal to \$25 million	\$750,000
Exceed \$25 million but less than or equal to \$100 million	Total federal awards expended times .03
Exceed \$100 million but less than or equal to \$1 billion	\$3 million
Exceed \$1 billion but less than or equal to \$10 billion	Total federal awards expended times .003
Exceed \$10 billion but less than or equal to \$20 billion	\$30 million
Exceed \$20 billion	Total federal awards expended times .0015

Polling Question 2

What is your organization's total federal expenditures for 2013?

- a. Below \$500,000 (including no federal expenditures)
- b. Equal to \$500,000 but less than \$750,000
- c. Equal to \$750,000 but less than or equal to \$25 million
- d. Above \$25 million

Changes to Report Findings

Section 200.516

- Auditor must indicate if a finding is a repeat from prior year (See next slide for further changes to follow-up to prior year findings)
- Minimum threshold for reporting questioned costs has increased to \$25,000 from \$10,000 (must report known questioned costs when likely questioned costs are greater than \$25,000 for major programs and known questioned costs of \$25,000 for non major programs)
- Auditor must use the same reference numbers for the findings to be consistent with the Data Collection Form
- Auditor must provide support for statistical samples used (if statistical sampling is used)

Changes to Report Findings (cont'd)

Section 200.511

Guide provides clarity about what and how to report follow-up on audit findings

- **Auditee** must prepare a corrective action plan and summary schedule of prior audit findings that includes findings related to the financial statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards (GAGAS)
- When a prior finding has been fully corrected, the summary schedule now needs only to provide the prior year's audit finding # and state that corrective action was taken

Changes to Report Findings (cont'd)

Section 200.511 (continued)

Guide provides clarity about what and how to report follow-up on audit findings

- When prior audit findings are not corrected or partially corrected, the summary schedule must describe the:
 - Reasons for recurrence
 - Planned corrective action
 - Partial corrective action taken
- When corrective action taken is significantly different from previously reported, must provide an explanation

Changes to Report Findings (cont'd)

Section 200.511 (b) (3)

When the auditee believes the audit finding is no longer valid or does not warrant further action, the reasons must be described in Schedule of Findings and Questioned Costs.

A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

- Two years have passed since the audit report was submitted to the Federal Audit Clearinghouse
- Federal agency or pass-through entity is not currently following up with the auditee on the finding
- A management decision was not issued. A management decision is the issuance of a written decision to the auditee by the federal awarding agency, as to what corrective action is necessary. (Federal awarding agency has 6 months to respond after acceptance of the reports – [Section 200.521](#))

Polling Question 3

Has your nonprofit organization had repeated reported findings in prior years?

- **Yes**
- **No**
- **N/A**

Changes to Data Collection Form (cont'd.)

- **Part III: Federal Programs**
 - Identify Loan/Loan Guarantee Programs
 - Standardized Audit Finding Reference Numbers: YYYY-###, (ex. 2013-001)
 - Item 6 (federal awards expended during fiscal year) has added columns to finding and if reported, must complete item 7(the federal award findings), which is new

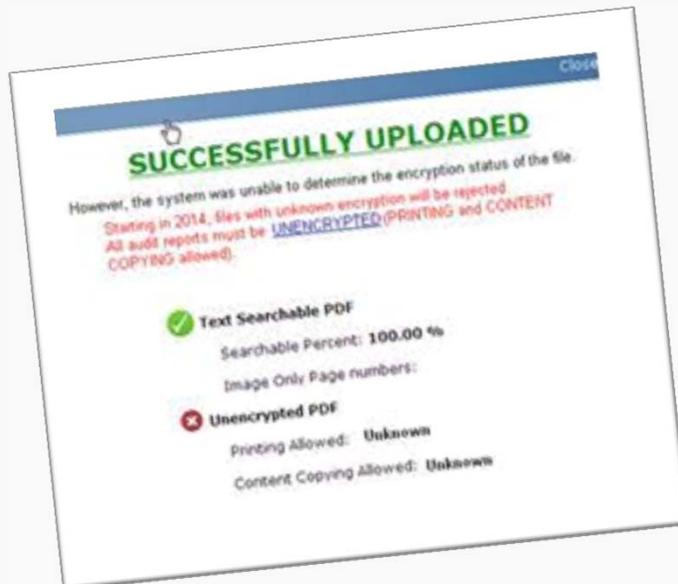
Changes to Data Collection Form (cont'd.)

- **Part III, Item 7: Federal Awards Findings Summary**
 - Audit findings must be listed once for each federal award affected by that finding
 - Auditor must report the type of compliance requirement (moved from Part III: Federal Programs)
 - Auditor must indicate type of finding to be indicated (modified opinion, other noncompliance, material weakness, significant deficiency, other)
 - Auditor must report questioned costs related to the finding (if applicable)

Changes to Data Collection Form (cont'd.)

- **Interim guidance regarding 2013 submissions**
 - For 2013 Data Collection Forms, OMB has granted an extension until **March 31, 2014** for reporting packages due to the clearinghouse before that date.
 - The extension is automatic and there is no approval required.
 - The extension applies only to single audits for the fiscal periods ending in 2013.

Changes to Data Collection Form (cont'd.)



- For 2013 audits with cognizant agency (and remaining audits in 2014), all reporting package uploads must be text searchable, unlocked, and unencrypted PDF files (FAC provides instructions when filing reports this year).
- Longer-term goal – to make all reporting packages transparent to the public.

To search the status of your organization's Data Collection Form, go to:
<https://harvester.census.gov/fac/dissemin/asp/incompleteEntity.asp>

Note: The 2013 audit year records are currently not yet available.

Polling Question 4

Has your nonprofit organization filed its 2013 Data Collection Form as of today?

- **Yes**
- **No**
- **N/A**

In Summary

1. Although the new Single Audit Guide will not be effective until years beginning on or after December 26, 2014:
 - a) organizations need to prepare for questions from funders as well as the media
 - b) government funding sources might need to change their grant management policies and organizations need to be aware of how the changes will affect how the grants/contracts are managed
 - c) these may change how the nonprofit organization solicits its grants/ contributions
2. OMB is going to continue to evaluate the new guide, and implement changes to achieve its desired results.

Thank you!

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