

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

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**ADP BULLETIN**

Title ANNUAL OMB CIRCULAR A-133 REMINDER LETTER FOR FY 1996-97		Issue Date: 6-18-98 Expiration Date: Through Next Annual OMB Circular A-133 Reminder Letter	Issue No. 98-31
Deputy Director Approval DESIRÉE WILSON Deputy Director Division of Administration	Function [] Information Management [] Quality Assurance [] Service Delivery [X] Fiscal [] Administration	Supersedes Bulletin/ADP Letter No. ADP # 97-24	

PURPOSE

The Office of Management and Budget (OMB) revised OMB Circular A-133 on June 24, 1997. This Bulletin is to convey the new audit requirements to County Alcohol and Drug Program Administrators and Direct Service Contractors for audits of FY 1996-97. This Bulletin includes the following:

- Exhibit 1 - OMB Circular A-133 (Revised June 24, 1997);
- General overview of OMB Circular A-133;
- Specific audit requirements of OMB Circular A-133;
- County monitoring responsibilities regarding subrecipients; and
- Direct service contract audit requirements.

DISCUSSION

In order to increase the efficiency of the single audit process, OMB has made numerous revisions to OMB Circular A-133. The initial application of the revisions began with audits of FY 1996-97. The revised OMB Circular A-133 increased the audit threshold to \$300,000 or more of total federal funds expended in a year (excluding Drug/Medi-Cal). This reduced the number of single audits performed for non-profit organizations (subrecipients), as many subrecipients fell below the \$300,000 threshold. To maintain adequate audit coverage, OMB increased pass-through entity responsibilities for monitoring their subrecipients. This correspondingly increased Department of Alcohol and Drug Programs' (ADP) monitoring responsibilities over the counties and the counties' monitoring responsibilities over their subcontractors.

Further, Certified Public Accountants' (CPA) roles and responsibilities increased. CPAs are required to perform risk based auditing procedures for determining and auditing those programs designated as "major" and "high risk". Not only shall CPAs follow the criteria contained in the revised OMB Circular A-133 for assessing risk, but they must also exercise professional judgment when necessary. These factors placed greater emphasis on the CPA's audit work for single audit purposes.

General Overview of OMB Circular A-133 Revisions of June 24, 1997

Attached is a general overview of the OMB Circular A-133 revision of June 24, 1997. The circular was revised to coincide with the federal government's overhaul of single audit policy, which they accomplished through the Single Audit Act Amendments of 1996, P.L. 104-156. These amendments provide uniform single audit requirements for all non-federal grantees, including state and local governments, colleges and universities, hospitals, and non-profit organizations expending \$300,00 or more a year in federal awards.

OMB made numerous changes to the circular which include the following:

- Rescinded the audit requirements of OMB Circular A-128, "Audits of State and Local Governments," issued April 12, 1985;
- Superseded the prior OMB Circular A-133 issued April 22, 1996;
- Raised the audit threshold to \$300,000 or more **expended** in total federal funds (excluding Drug/Medi-Cal) in a year;
- Disallowed the costs of single audits of subrecipients expending less than \$300,000 in total federal funds in a year;
- Established new subrecipient monitoring requirements;
- Allowed the costs of subrecipient monitoring procedures to be charged against federal awards, such as limited scope audits, on-site visits, and reviews of documentation supporting requests for reimbursement;
- Established new risk based auditing approaches for determining and auditing those programs designated as "major" and "high risk". Provided for auditors to have the option of not using the risk based approach until the second-year audits;

- Shortened the deadline for submitting audit reports from thirteen (13) months to nine (9). This requirement takes effect two (2) years later for fiscal years beginning after June 30, 1998;
- Required subrecipients to prepare and submit “Data Collection Forms” to the Single Audit Clearinghouse, which includes a signature by the independent auditor, and a certification by a senior level representative of the subrecipient;
- Required subrecipients to submit “Single Audit Reporting Packages” to the Single Audit Clearinghouse;
- Established new Single Audit Clearinghouse requirements; and
- Established a \$10,000 or greater requirement for reporting known or likely questioned costs for major programs.

Specific Audit Requirements

1. Pursuant to OMB Circular A-133, the Counties shall require and ensure that subrecipients expending \$300,000 or more in federal awards in a year, have a single or program-specific audit performed.
 - (a) The audit shall be performed in accordance with OMB Circular A-133 (revised June 24, 1997), “Audits of States, Local Governments, and Non-Profit Organizations.”
 - (b) The audit shall be conducted in accordance with generally accepted auditing standards; and Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States.
 - (c) A copy of the audit performed in accordance with OMB Circular A-133 shall be submitted to ADP within thirty (30) days of completion, but no later than thirteen (13) months following the end of the subrecipient’s fiscal year. The submission deadline was shortened to nine (9) months starting with fiscal years beginning after June 30, 1998.
 - (d) The cost of the audit made in accordance with the provisions of OMB Circular A-133 may be charged to applicable federal awards. Where apportionment of the audit cost is necessary, such apportionment shall be made in accordance with generally accepted accounting principles, but shall not exceed the proportionate amount that the award represents of the subrecipient’s total revenue.
 - (e) The work papers and the audit reports shall be retained for a minimum of three years from the date of the audit reports, or longer if the independent auditor is notified in writing by the State to extend the retention period.
 - (f) Audit work papers shall be made available upon request to ADP, and copies shall be made as is reasonable and necessary.
 - (g) The counties, in coordination with ADP, shall ensure the subrecipients are responsible for follow-up and corrective action on any material audit findings in the single or program-specific audit reports.

Audit Sanctions

2. Pursuant to OMB Circular A-133, ADP may impose sanctions against counties for not submitting required single or program specific audit reports. The sanctions shall include:
 - (a) Withholding a percentage of federal awards until the audit is completed satisfactorily;
 - (b) Withholding or disallowing overhead costs;
 - (c) Suspending federal awards until the audit is conducted; or
 - (d) Terminating the federal award.

Data Collection Forms

3. Pursuant to OMB Circular A-133, the subrecipient is required to prepare and submit a completed "Data Collection Form" to the Single Audit Clearinghouse, which includes a signature by the independent auditor, and a certification by a senior level representative of the subrecipient. This form provides the Clearinghouse with information to create and maintain a government-wide database of federal awards, subrecipients, and their audit results. Federal awarding agencies will use the database information to identify audit problems that may require further review or policy change. Additionally, the Single Audit Clearinghouse will use the information in the form to distribute the subrecipient audit reporting packages to federal awarding agencies.

Audit Reporting Packages

4. Pursuant to OMB Circular A-133, the subrecipient is required to submit one (1) copy of an "Audit Reporting Package" to the Single Audit Clearinghouse to retain as an archival copy. Further, one (1) copy of the audit reporting package shall be submitted to the Single Audit Clearinghouse for each federal awarding agency affected by findings disclosed in the Schedule of Findings and Questioned Costs, or the Summary Schedule of Prior Audit Findings.

In addition, the subrecipient is required to submit one (1) copy of the audit reporting package to each county. As ADP is no longer required to submit copies of audit reports to the Single Audit Clearinghouse, only one (1) copy of the audit reporting package is now required from the counties for ADP review.

The audit reporting package shall include the following: (1) financial statements; (2) auditor's opinion (or disclaimer of opinion) on the financial statements; (3) Schedule of Expenditures of Federal awards; (4) auditor's opinion (or disclaimer of opinion) on the Schedule of Expenditures of Federal Awards; (5) report on internal controls; (6) report on compliance for major programs; (7) auditor's opinion (or disclaimer of opinion) on compliance for major programs; (8) Schedule of Findings and Questioned Costs; (9) Summary Schedule of Prior Audit Findings; and (10) Corrective Action Plan.

Subrecipient Monitoring

5. Pursuant to OMB Circular A-133, the counties are required to monitor the activities of their subrecipients expending less than \$300,000 in total federal funds in a year. This is necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

Limited scope audits, on-site visits, and reviews of documentation supporting requests for reimbursement, are monitoring procedures that are acceptable to OMB in meeting county monitoring objectives. Also, OMB will allow counties to charge federal awards for the cost of these monitoring procedures.

- (a) Limited scope audits include agreed-upon audit procedure engagements conducted in accordance with either American Institute of Certified Public Accountant's (AICPA's) generally accepted auditing standards or attestation standards. They are paid for and arranged by pass-through entities (counties) and address only one

or more of the following types of compliance requirements: (1) activities allowed or unallowed; (2) allowable costs/cost principles; (3) eligibility; (4) matching, level of effort and earmarking; and (5) reporting.

The limited scope audit shall be conducted in accordance with the "Government Auditing Standards", 1994 revision, issued by the Comptroller General of the United States. A limited scope audit includes the CPA's compilation of financial statements and related opinion or disclaimer of opinion, and a report on the agreed-upon compliance requirements and related opinion or disclaimer of opinion.

- (b) On-site visits focus on compliance and controls over compliance areas. The reviewer makes site visits to the subrecipient's location(s), and documents the visits using a checklist or program focusing on the compliance areas. All findings noted during the on-site monitoring are handled in the same manner as any exceptions noted during single or program-specific audits.
- (c) Reviews of supporting documentation submitted by subrecipients include, but are not limited to, copies of invoices, canceled checks, and time sheets. Prior to reimbursement, the reviewer determines if the costs are allowable under the terms of the federal award.

Previously, a "County Monitoring Questionnaire" was used to determine the level of monitoring activity performed by counties. The information we received enabled us to determine which counties needed to increase their subrecipient monitoring activities. ADP will soon request updates to current monitoring procedures from all counties due to the changes in the revised OMB Circular A-133.

Direct Service Contract Audit Requirements

Direct service contractors are responsible for having a financial and compliance audit completed as required by the Health and Safety Code, Chapter 5, Sections 38040 and 38041. The audit shall be conducted by independent auditors and shall meet the requirements of a financial related audit, as defined in Government Auditing Standards, 1994 Revision, issued by the Comptroller General of the United States.

The audit shall include, at a minimum, a determination of whether financial information is presented in accordance with established or stated criteria, and whether the contractor has adhered to specific financial compliance requirements. The audit report shall be completed and submitted to ADP's Project Coordinator no later than the 15th day of the fifth month following the end of the contract period. ADP shall withhold ten percent of the total contract amount pending receipt of an acceptable audit report.

The scope and frequency of the audit shall be determined, as follows:

1. If the funding amount of the contract is less than \$25,000, then the audit is required only for the specific contract or program. Such audit shall include a review of cost allocations between contracts and programs to ensure that the contract under audit was charged a reasonable and equitable share of costs. Audits shall be conducted biennially, unless there is evidence of fraud or other violation of state law.

If this is the only audit required for the organization, then the entire cost of the audit may be charged to the contract. Otherwise, the apportionment of the cost of the audit to this contract and the other contracts and programs shall be made based on generally

accepted accounting principles, but shall not exceed the proportionate amount that the contract represents of the contractor's total revenue.

2. If the funding amount of this contract is \$25,000 or greater, then the audit shall be of the entire contractor, rather than the individual contract or program. In addition to the minimum requirements, these audits shall determine whether the contractor's internal control structure over financial reporting is suitably designed to assure reasonable accuracy. The apportionment of the cost of the audit to this contract and other contracts and programs shall be made based on generally accepted accounting principles, but shall not exceed the proportionate amount that the contract represents of the contractor's total revenue.
3. The contractor agrees that it shall be responsible for having an audit performed in accordance with OMB Circular A-133 (revised June 24, 1997), if total federal funding expended in a year, through this contract or otherwise, equals or exceeds \$300,000 (excluding Drug/Medi-Cal). In the event that OMB Circular A-133 dictates the need for a single organization-wide audit, its completion shall be deemed as satisfying all other audit requirements. The audit scope must incorporate the specific audit of this contract, regardless of the contract funding amount or the funding source.

Copies of the audit report shall be submitted to ADP's Project Coordinator, ADP's Audit Services Branch, and to other funding sources, as contractually required, within thirty (30) days of completion, but no later than thirteen (13) months following the end of the contractor's fiscal year. The submission deadline was shortened to nine (9) months starting with fiscal years beginning after June 30, 1998. ADP shall withhold ten percent of the total contract amount pending receipt of an acceptable audit report.

The cost of the audit made in accordance with the above provisions is an allowable charge to all programs. Where apportionment of the audit cost is necessary, such apportionment shall be made in accordance with generally accepted accounting principles. Audit work papers shall be retained for a minimum of three years from the issue date of the audit report. Audit work papers shall be made available upon the request of ADP.

It is our commitment to work with the counties and direct service contractors in a cooperative effort to achieve compliance with OMB Circular A-133.

Please send the audit reports to:

Department of Alcohol and Drug Programs
Division of Administration
Audit Services Branch
1700 K Street, Fifth Floor
Sacramento, CA 95814-4037
Attention: David Mar

REFERENCES

OMB Circular A-133 (revised June 24, 1997); OMB Technical Support Staff; Department of Health and Human Services Technical Support Staff.

HISTORY

Title/Subject: OMB Circular A-133 Reminder Letter
Issue Number:97-24
Date Issued: April 25, 1997
Expiration Date: Superseded by next annual OMB Circular A-133 Reminder Letter

Title/Subject: OMB Circular A-133 Reminder Letter
Issue Number:96-31
Date Issued: June 18, 1996
Expiration Date: Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted: April 25, 1997

Title/Subject: OMB Circular A-133 Audit Requirements
Issue Number:95-09
Date Issued: March 22, 1995
Expiration Date: Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted: June 18, 1996

Title/Subject: OMB Circular A-133 Audit Requirements
Issue Number:94-12
Date Issued: May 20, 1994
Expiration Date: Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted: March 22, 1995

Title/Subject: OMB Circular A-133 Audit Requirements
Issue Number:93-38
Date Issued: May 18, 1993
Expiration Date: Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted: May 20, 1994

Title/Subject: OMB Circular A-133 Audit Requirement Responsibilities and Request for Audit Reports
Issue Number: 92-06
Date Issued: March 12, 1992
Expiration Date: Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted: May 18, 1993

QUESTIONS/MAINTENANCE

David Mar, Department of Alcohol and Drug Programs, Division of Administration, Audit Services Branch, (916) 324-2193.

EXHIBITS

OMB Circular No. A-133, revised June 24, 1997, from Executive Office of The President, Office of Management and Budget.

DISTRIBUTION

County Alcohol and Drug Program Administrators (MLS #13)
ADP Director's Advisory Group (MLS #66)
ADP Mailings (MLS #102)
Direct Contract Providers
Fiscal County Representatives