



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
AND THE LOCAL GOVERNMENT COMMISSION

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**Memorandum # 2010-16**

**To: Local Government Financial Officials and Their Independent Auditors**

**From: Sharon Edmundson, Director, Fiscal Management Section**

**Subject: Current Issues With Single Audits, Including Issues With the American Recovery and Reinvestment Act of 2009 (ARRA) Funds**

**Date: October 9, 2009**

The following is a discussion of issues concerning local governments and public authorities that are required to have federal or State single audits or audits conducted under Governmental Auditing Standards for year ending June 30, 2009. A more inclusive discussion of federal and State single audit issues can be found in Section 35-E of the *Audit Manual for Governmental Auditors in North Carolina*.

Local Government Financial Officials and their auditors are reminded that Single Audits performed under OMB Circular A-133 will be a primary tool used by federal government to assess accountability of American Recovery and Reinvestment Act of 2009 (ARRA) expenditures. Many questions have arisen about the compliance auditing requirements for funds received through the ARRA. This memo will discuss several different aspects of auditing those funds as part of a unit's single audit.

**Treatment of Type A Programs with ARRA Funding**

There has been some confusion regarding the treatment of whether or not Type A programs with small dollar amounts of American Recovery and Reinvestment Act of 2009 (ARRA) expenditures could be considered low-risk for determining major programs. This would include not only ARRA funded programs with a unique Catalog of Federal Domestic Assistance (CFDA) number or program clusters when one CFDA number is being used for both Recovery and non-recovery act funds. This memo provides clarification on this issue.

In its 2009 Compliance Supplement, OMB added *Appendix VII, Other OMB Circular A-133 Advisories* to include guidance on the treatment of Recovery Act funds audited as part of a single audit. The appendix states that the auditor should consider all Federal programs with expenditures of ARRA funds to be programs of higher risk in accordance with sections .525(c)(2) and .525(d) of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. There is no de minimus threshold for this consideration. The appendix also states that when utilizing the risk-based approach under section .520(c)(1), Type A programs that include expenditures of ARRA funds should not be considered low-risk except when the auditor determines that the expenditures of ARRA funds are low-risk for the

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*program.* If an auditor determines that ARRA funds are to be considered low-risk for a particular program, all qualitative and quantitative factors that support this determination should be thoroughly documented.

Our office contacted both the US Department of Health and Human Services Inspector General's Office and the US Office of Management and Budget (OMB) seeking clarification on the above guidance. Guidance also can be found at the AICPA's Governmental Audit Quality Center (GAQC) Alert #123.

The following is an excerpt taken from a 2009 memo by Gilbert Tran with OMB - *Further Clarifications on Type A Program with a Small Amount of ARRA Expenditures:*

*Examples of factors affecting an auditor's consideration of whether a program is low-risk include:*

- *The June 2009 Addendum to the Compliance Supplement states: "At many entities, awards funded by Recovery Act funds will result in material increases in funding, which may result in a material increase in the level of resources needed by management to properly manage, monitor, and account for Federal awards and effectively operate internal control. As part of the consideration of internal control over compliance, auditors should consider "capacity" issues..." Therefore, while de minimus levels of Recovery Act expenditures in the current year may be a quantitative factor indicating low risk, the anticipated large funding increases in subsequent periods would be a strong qualitative factor that would not support a designation of a program as low-risk.*
- *The lack of findings in prior audits of the program may indicate a low-risk program. However, the auditor must consider the new compliance requirements that are specific to all Recovery Act awards which would not support a designation of a program as low-risk.*
- *The auditor must consider qualitative factors such as the unprecedented levels of transparency and accountability for Recovery Act funds established by Congress and the administration which would not support a designation of a program as low-risk.*

*When documenting the instances when a program receiving ARRA funds is low-risk, the audit documentation should consider those quantitative and qualitative factors which both support and would not support a designation of a program as low risk.*

*Auditors should be aware that the justification and related documentation for considering a program with ARRA funds as a low-risk program will be subject to a review by Federal auditors. OMB has instructed Offices of Inspector General (OIGs) to perform quality control reviews to ensure single audits are properly performed and improper payments and other non-compliance are fully reported. OIGs will perform follow-up reviews of Single Audit quality with emphasis on Recovery Act*

*funds and report the results on Recovery.gov. In addition, 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. The separate presentation on the Data Collection Form of ARRA expenditures will enable OIGs, GAO and Federal program officials to easily identify programs with ARRA expenditures that were not considered major programs.*

We also have discussed with OMB the concerns raised in OMB's *Report on the National Single Audit Sampling Project*. (OMB reviewed a sample of single audits from governments and across the country both large and small, the results of which are the basis for this report.) The report discloses significant percentages of unacceptable audits and audits of limited reliability including due to deficiencies such as failure to adequately document and test internal controls and compliance as required by OMB Circular A-133. The unprecedented level of transparency and accountability expected with the expenditure of ARRA funds should be a qualitative factor to be considered by the auditor when making decisions about the audit of ARRA funds.

Another factor that an auditor may want to consider when making decisions on the audit of ARRA funds is that North Carolina has been selected as one of 16 states by the US Government Accountability Office (GAO) for bimonthly reviews. These 16 states account for approximately 65 percent of the US population and are estimated to be receiving about two-thirds of the total ARRA funds available. The LGC, as well as other State agencies, has had meetings with representatives of GAO to discuss the single audit review process and the monitoring procedures for federal grants received in North Carolina. These representatives have visited and continue to visit local governments that are expected to receive ARRA funding.

OMB has not issued any formal guidance concerning ARRA funds on Type B program risk assessments. Federal officials believe that auditors should consider Type B programs with existing CFDA numbers that include ARRA expenditures to be higher risk for the same reasons that OMB suggests that auditors deem Type A programs to be so. The auditor, in selecting programs, must consider the same factors discussed regarding Type A programs when making their decisions about Type B programs.

#### **Reporting ARRA Funds on the Schedule of Expenditures of Federal and State Awards (SEFSA) and on the Data Collection Form**

Recipients of ARRA funds that are required to file Single Audits under OMB A-133 are required to separately identify the expenditures for Federal Awards received under the ARRA on the SEFSA and the Data Collection Form (form SF-SAC). Many of the ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with existing programs. OMB will update the clusters of programs as described in Part 5 of the Compliance Supplement. Any changes in the clusters are posted to the OMB Management website (<http://www.whitehouse.gov/omb/management>) under Grants Management, as addenda to the Supplement, beginning June 2009.

OMB instructs that expenditures for Federal awards made under the ARRA should include the prefix "ARRA-" in the identifying name of the program. Likewise on the form SF-SAC, the

ARRA program should be shown on a separate row under Item 9 of Part III and “ARRA- as the first characters in item 9d of Part III.

SEFSA Presentation for ARRA expenditures

Grantor/Pass-through/Program Title	Federal CFDA Number	Pass-through Grantor Number	Fed. (Direct & pass-through Expenditures
US Department of Health and Human Services			
Pass-through NC Dept. of Health and Human Services.			
Division of Social Services			
Foster Care	93.568	XXXX	11,000,000
ARRA – Foster Care	93.568	XXXX	1,099,000

Recipients of ARRA funds that do not require Single Audits under federal requirements, but have Single Audits because expenditures of State financial assistances are \$500,000 or greater, should report the federal expenditures on the SEFSA in a similar fashion. Also, if a local government or public authority presents a SEFSA in their audit for a yellow book only audit, ARRA funds should be similarly presented.

Data Collection Form Presentation for ARRA expenditures

PART III FEDERAL PROGRAMS - Continued					
9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR					
Federal Agency Prefix (a)	CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)
	Extension <sup>2</sup> (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

**CFDA Number for Identifying Commodity Assistance**

The CFDA number for Food Distribution historically has been 10.550; however the US Department of Agriculture (USDA), Food and Nutrition Services holds that commodities are an integral part of the categorical programs under which USDA makes them available and should be identified with those programs. The following categorical programs (and their CFDA numbers) are affected by this policy: the National School Lunch Program (NSLP)(CFDA 10.555); the Summer Food Service Program (SFSP)(CFDA 10.559); the Child and Adult Care Food Program (CFDA 10.558); and the Commodity Supplemental Food Program (CSFP)(CFDA 10.565).

Schools often use commodities in the School Breakfast Program (SBP)(CFDA 10.553), but that program does not appear in the above listing of affected programs because the SBP, unlike the NSLP, does not generate separate commodity entitlements for State agencies and the schools under their oversight. There is no “award” of commodities under the SBP. Since reporting in the SEFSA and SF-SAC focuses on the expenditure of Federal awards, commodities used in the SBP should be deemed “awarded” under the NSLP and reported as such.

Beginning with fiscal year ended June 30, 2009, School Boards, Charter Schools, other local governments and their auditors must identify commodity assistance by the CFDA numbers of the categorical programs under which USDA donated the commodities.

The following presentation on the SEFSA is recommended:

Grantor/Pass-through/Program Title	Federal CFDA Number	Pass-through Grantor Number	Fed. (Direct & pass-through Expenditures
US Department of Agriculture			
Child Nutrition Cluster			
Non-Cash Assistance (Commodities)			
Pass-through NC Dept. of Agriculture			
National School Lunch Program	10.555	XXXX	\$ 311,550
Summer Food Service Program for Children	10.559	XXXX	140,283
<i>Non-Cash Assistance Subtotal</i>			451,833
Cash Assistance			
Pass-through NC Dept. of Public Instruction			
School Breakfast Program	10.553	XXXX	705,612
National School Lunch Program	10.555	XXXX	1,759,140
Special Milk Program for Children	10.556	XXXX	24,233
Pass-through NC Dept. of Health and Human Services:			
Division of Public Health			
Summer Food Service Program for Children	10.559	XXXX	575,614
<i>Cash Assistance Subtotal</i>			3,064,599
Total Child Nutrition Cluster			3,516,432

**Recommended Reporting of Commodities on the Data Collection Form (SF-SAC):**

Page 3 of the SF-SAC gives a matrix in which the auditee and/or auditor can list the auditee's Federal awards by CFDA number and provide additional information about them. For entering programs for which the auditee received commodity assistance, it is recommended to report the program's cash and commodity components on separate lines but using the same CFDA number for both. For example, an auditee that operated the National School Lunch Program would enter "10.555" and "National School Lunch Program – Cash" on one line; and "10.555" and "National School Lunch Program – Commodities" on the following line. Since both are elements of the Child Nutrition Cluster, both must be identified as major in column (g), page 3 of the SF-SAC whenever the Cluster as a whole is audited as a major program.

### **Interim Guidance on Reporting Deficiencies in Internal Control for GAGAS Audits**

The GAO has issued *Interim Guidance on Reporting Deficiencies in Internal Control for Governmental Auditing Standards (GAGAS) Financial Audits and Attestation Engagements*. This is following the issuance of Statement on Auditing Standards (SAS) No. 115 *Communicating Internal Control Matters Identified in an Audit* that supersedes SAS No. 112 of the same title. This *Interim Guidance* aligns the definitions and related guidance for evaluating deficiencies in internal control with the definitions and guidance in (SAS) No. 115 until the next update of GAGAS.

Auditors may satisfy the internal control reporting requirements in GAGAS paragraph 5.11 by including in the GAGAS report on internal control all identified "material weaknesses" and "significant deficiencies" following the new definitions and requirements from SAS No. 115 and SAS 15, as applicable, providing those definitions, and describing the scope of testing performed on the entity's internal control over financial reporting.

Auditors are reminded to comply with all other relevant GAGAS requirements related to reporting deficiencies in internal control, such as developing findings and providing recommendations for corrective action if findings are sufficiently developed (GAGAS paragraph 5.21 and 6.42), obtaining the view of responsible officials (GAGAS paragraphs 5.32 through 5.385 and 6.44 through 6.5), and ensuring appropriate report distribution (GAGAS paragraph 5.44 and 6.56).

As of the date of this memo, OMB has not issued any guidance on revising definitions related to Single Audits performed under Circular A-133.

Should you have any questions please contact Jim Burke at (919) 807-2389 or via email at [james.burke@nctreasurer.com](mailto:james.burke@nctreasurer.com) or Manasa Cooper (919 807-2390) or via email at [manasa.Cooper@nctreasurer.com](mailto:manasa.Cooper@nctreasurer.com).