OMB Facts Circular A-133

Audits of States, Local Governments, and Non-Profit Organizations

Key Provisions

Nonprofit organizations expending $500,000 or more in federal funds in any fiscal year[1], received through either a direct or pass-through award, are subject to the rigorous scrutiny of a federal A-133 audit; so named because the audit is governed by OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations.* Federal audits are more demanding than the financial statement audits typically performed on nonprofits, examining both financial and non-financial factors. In addition to review of the financial books and statements for material misstatement, an A-133 audit 1) confirms the sources and extent to which an organization has benefited from federal funding during the year; 2) evaluates compliance with federal grant regulations and contractual agreements; 3) assesses general management of the organization; and 4) looks at internal control systems, such as segregation of financial duties, to evaluate potential risk of fraud or mismanagement, including unallowed uses of federal funds.

OMB Circular A-133 provides general guidance on audit requirements for auditees, pass-through entities, federal agencies, and auditors. The circular covers topics such as: who is subject to federal audit; types of audits, required financial statements and other mandatory components of the audit; how to address audit findings; auditor procurement; and packaging and submitting the audit to the Federal Audit Clearinghouse. Federal audits are performed by independent certified public accountants (CPAs) who must follow generally accepted government auditing standards. The CPA firm that assists your organization with its bookkeeping, cannot also serve as your auditor.

The A-133 Circular includes a comprehensive compliance supplement that is an important tool for auditors. The supplement provides detailed program-level guidance

[1] Fiscal year is nonprofit's fiscal year not the federal fiscal year.

on audit and internal controls and monitoring requirements for programs funded by each Federal Department and Agency, so that auditors can assess compliance with specific program rules and regulations. The supplement also serves as a tool for nonprofit organizations, informing staff and board on those factors that auditors will evaluate. Overall, the intention of OMB Circular A-133 is to standardize the performance and content of audits for all federal award recipients. Access OMB Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations at www.whitehouse.gov/omb/circulars_a133

The OMB Circular A-133 Compliance Supplement contains a "Matrix of Compliance Requirements" covering 14 types of compliance requirements that may apply to a Federal program. Auditors must follow supplement guidance to determine which compliance requirements to test for each federal program.

Audit Costs

Because of its complexity, an A-133 audit is more time consuming for both the auditee and the auditors and costs more than a financial statement audit. A fair share of the cost of an A-133 audit is an allowable charge to a federal award and can be expensed as either a direct or an indirect cost, as appropriate. Be sure to include audit costs in your federal grant budget.

A-133 Single Audits

OMB Circular A-133 helps you and your auditor determine whether a single or program-specific audit is appropriate. The most frequently performed federal audit is the "single" audit. It is called a "single" audit because it covers the *entire operations* of the awardee. It encompasses all aspects of the widely performed financial statement audit that most organizations undertake each year and adds risk assessment analysis and a compliance audit of federal awards. Single audits are, by design, cost effective and efficient because they allow multiple federal programs, as well as non-federal programs, to be audited at the same time by the same auditor. A single audit is required when an organization with two or more federal awards has expended at least $500,000 in federal funds in any fiscal year. When an organization has multiple federal

awards, the auditor will assess the organization's risk of noncompliance and determine how many and which federally-funded programs to closely examine. Federal funding agencies and pass-through funding entities may also direct the auditor to more closely examine specific programs. OMB has issued an informative pamphlet titled "*Highlights of the Single Audit Process*" that explains more about the single audit. It is available at http://harvester.census.gov/fac/OMBrevisions.html.

A-133 Program Specific Audits

When an organization has only one federal award of $500,000 or more and the federal funding agency does not require an audit of the organization's financial statements, an awardee may elect a "program-specific" audit rather than a *single* audit. A program-specific audit models the single audit in content, but addresses only the organization's federally-funded program. For example, the financial statement included in a program-specific audit will reflect only federal program income and expenses, assets and liabilities, and cash flows. Organizations tend to choose program-specific audits when their federally-funded program is substantially different in size or purpose from other activities. An organization with only one federal award may also elect to have a single audit that includes all activities of the organization.

A-133 Audits Incorporate both Financial Statement and Compliance Audits

Financial Statement Audit provides reasonable assurance about whether the financial statements of an entity present fairly the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

Compliance Audit considers whether an entity is following laws, regulations and written agreements and assesses whether an auditee is at high or low risk for noncompliance. Compliance factors include adherence to internal control procedures, conformity with budget and program objectives, and economy and efficiency of operations.

When an organization has only one federal award of $500,000 or more and the federal granting agency does not require an audit of the organization's financial statements,

OMB Circular A-133 allows an awardee to elect a "program-specific" audit. This audit models the contents of a *single* audit, but reviews only the financial statements related to the federal program.

While an A-133 audit is not required for grantees expending less than $500,000 a year in federal funds, the federal government retains the right to examine compliance, operational, and financial practices of any federal grantee. Some nonprofits with federal funding below the $500,000 federal audit threshold voluntarily elect an annual A-133 audit to demonstrate a higher level of accountability to both federal and non-federal funders.

Components on an A-133 Audit

OMB Circular A-133 provides clear guidance on the content of an A-133 federal audit. It must include the following items:

1. Cover letter signed and dated by the auditor, stating the auditor's opinion or disclaimer of opinion on whether or not the auditee's financial statements are presented fairly, in all material respects, in conformity with US Generally Accepted Accounting Principles (GAAP)

2. Audited Financial statements, for either the organization as a whole in the case of a single audit or for the audited federal program in the case of a program-specific audit, including:
    - statement of financial position (balance sheet)
    - statement of financial activities (income statement)
    - statement of cash flows (sources and uses of funds)

3. Notes to the financial statements, as required by GAAP, covering:
    - functional expenses
    - depreciation
    - details on debt
    - contributions and pledges
    - volunteer services and in-kind contributions
    - sub-grant recipient information
    - recently resolved and pending litigation
    - other significant information not obvious in the financial statements.

4. Schedule of Expenditure of Federal Awards, identifying each federal award by Catalogue of Federal Domestic Assistance (CFDA) number;

5. Auditor's report on the reliability of internal control systems as they relate to the auditee's financial statements and Federal program(s);

6. Compliance report expressing the auditor's opinion or disclaimer of opinion on the degree to which the auditee has complied with laws, regulations, and the terms and conditions of their federal award(s).

7. Schedule of Findings and Questioned Costs for the current audit year;

8. Corrective Action Plan, if applicable.

9. Schedule of Prior Audit Findings and auditor's statement on corrective actions taken to resolve prior findings.

10. Data Collection Form SF-SAC, which summarizes audit findings and conclusions.

If applicable, the auditor will provide a letter to the board of directors citing weak areas of the organization's internal control and accounting systems. The "Management Letter" is not an official component of the audit and does not have to be submitted to the Federal Audit Clearinghouse or shared with the public when the audit is distributed. It is an internal document provided to identify correctable weaknesses not reflected as material deficiencies in the audit.

What Did the Auditor Mean by That?

You might be surprised to learn that an "unqualified" audit opinion is what you will want from your auditor. An unqualified audit opinion means your auditor has found your financial statements to "*present fairly, in all material respects*" the financial position, change in net assets, and cash flows of the organization with no red flags. A qualified opinion means the auditor finds the financial statements to be "presented fairly….", but with a noted exception or two the auditor will identify in the opinion letter. If the auditor finds material problems or issues with your financial statements, an adverse opinion will be rendered stating the financial statements, *"… do not present fairly…".* Be sure to read the auditor's opinion letter carefully.

Role of the Auditee in the Audit Process

Contrary to popular practice, nonprofit staff should not manage the audit process. Hiring and interacting with the auditor are the responsibility of the Finance or Audit Committee of the organization's Board of Directors. The Board must also review and approve the audit prior to submission to the Federal Audit Clearinghouse. Auditees

should choose competent auditors, knowledgeable in nonprofit accounting and OMB audit regulations, to ensure the audit accurately represents the financial position and risk-profile of the organization. Circular A-133 provides guidance on how to evaluate potential audit service providers.

If the audit identifies material deficiencies, the auditee must prepare a corrective action plan and then implement the plan. If audit findings were reported in the prior years, the auditee must report on the status of these findings until corrected or no longer valid. Organizations are also responsible for ensuring their federal audit is completed within 9 months of their fiscal-year end and that the audit is submitted to the Federal Audit Clearinghouse within 30 days of receipt of the auditor's final reports. Extensions for late audit submission are not granted.

The most important work of the auditee is to prepare for the audit year-round by keeping accurate and organized records and by ensuring that federal program income and expenditures are tracked separately in the accounting system and can be easily identified by the auditor.

FOR MORE INFORMATION VISIT THESE WEBSITES:

Audit Specific Websites:

OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* at www.whitehouse.gov/omb/circulars/index.html

OMB Circular A-133 Supplement for Auditors
http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010

For an overview of the Single Audit Process, please read the Grants Management Committee's Single Audit Pamphlet "*Highlights of the Single Audit Process*" and the brochure "*Single Audit Basics and Where to Get Help*" at: (http://harvester.census.gov/fac/OMBrevisions.html).

Learn more about when and how to submit your federal audit to the Federal Audit Clearing House at http://www.dpm.psc.gov/

Other Helpful Websites:

OMB Circular A-110: *Uniform Administrative Requirements for Grants;* and A-122: *Cost Principals for Nonprofit Organizations* at www.whitehouse.gov/omb/circulars/index.html

U.S. Department of Health and Human Services Grants Policy Statement at www.ahrq.gov/fund/hhspolicy.htm

Grantee's Financial Reference Guide for Managing CDC Grants and Cooperative Agreements at http://genevasrsp.org/ data/files/Managing_CDC_grants.pdf

Find more information on Federal Indirect Cost Rates through the HHS Division of Cost Allocation Program Support Center at http://rates.psc.gov/

HHS Administration for Families and Children has published a series of informative booklets with guidance on topics such as federal grants and sub-awardee management. Booklets are part of the Capacity Building Toolkits for Faith-Based and Community Organizations Intermediary Development Series and can be found at http://www.acf.hhs.gov/programs/ocs/ccf/resources/toolkit.html