



National Association of State Auditors, Comptrollers and Treasurers

May 31, 2013

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Norman S. Dong
Acting Controller
U.S. Office of Management and Budget
725 17th Street NW
Washington, DC 20025

Dear Mr. Dong:

As President of the National Association of State Auditors, Comptrollers and Treasurers, I am pleased to provide the association's response to *Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*, which was issued in the February 1, 2013, Federal Register.

We appreciate this opportunity to respond to the proposed reforms and greatly appreciate that U.S. Office of Management and Budget has taken steps to help reduce unnecessary regulatory and administrative burdens and better focus Single Audits to reduce fraud, waste, and abuse. We applaud OMB for undertaking this massive project of proposing reforms to federal policies.

Overall, we are supportive of these OMB initiatives to reform the effectiveness and efficiency of federal program outcomes and integrity and strengthen the oversight of federal grant dollars. Aligning administrative requirements, standardizing reports, and eliminating duplicate efforts across federal agencies would hopefully ease the administrative burden on recipients of federal funds. We believe the proposed reforms will reduce some of the current administrative burden to the states and their local governments.

To provide OMB with the full extent of the feedback provided by our members, we are attaching the detailed comments that we received, including those that expressed differing viewpoints. We asked our members to respond to the three major categories of reform covered by the proposal: audit requirements (Circulars A-133 and A-50); cost principles (Circulars A-21, A-87, and A-122); and administrative requirements (Circulars A-102, A-110, and A-89). We also asked our members to provide other suggestions that they thought would improve grant reforms.

We commend OMB for examining each of these areas for reform, as it has been many years since some of these circulars have been changed. Many, if not all, need to be modernized to reflect today's grant environment. Should you have any questions about our comments, please contact me at (617) 973-2315, or Kinney Poynter, NASACT's executive director, at (859) 276-1147.

Sincerely,

Martin J. Benison
President

**Proposed OMB Uniform Guidance: Cost Principles, Audit, and
Administrative Requirements for Federal Awards**

February 1, 2013

Detailed Comments from NASACT Members

General Comments:

Office	Comments:
Auditor	<p>We appreciate that the U.S. Office of Management and Budget has given us the opportunity to respond to its proposed reforms and greatly appreciate that OMB has taken steps to help reduce unnecessary regulatory and administrative burdens and better focus Single Audits to reduce fraud, waste, and abuse. However, in some cases we believe that reforms have not gone far enough to truly respond to the President’s Executive Order 13563 of January 18, 2011, where he reinforced that it is important for Federal agencies to identify those “rules that may be outmoded, ineffective, insufficient, or excessively burdensome,” and “modify, streamline, expand, or repeal them in accordance with what has been learned.”</p>
Auditor	<p>We appreciate the opportunity to respond to the Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards. Members of our staff have read the proposed guidance and have the following comments:</p> <ul style="list-style-type: none"> • The state meets the requirements to conduct biennial Single Audits. We appreciate the clarification provided through Subchapter A on the applicability of the Subchapter G provisions relative to other federal requirements. • In establishing an implementation date for the proposed changes, please consider biennial Single Audits so the changes can be made for an entire period under audit. <p>We anticipated new data collection form guidance would be available for comment; will it be available for comment at a future date? We are specifically concerned about rumored changes related to the electronic submission of the Single Audit report not currently addressed in .712 Report Submission.</p> <ul style="list-style-type: none"> • Has CFDA been replaced with CFFA?
Auditor	<p><u>Avoid Generalized Terms:</u> When developing final guidance, OMB should avoid using the general terms “agency” or “program” when describing which entity must comply with a requirement or perform an action. General terms can cause confusion because “agency” could refer to a federal agency that awards the funds or to a state agency that is also awarding the funds. In some cases a state entity is awarding the same funds to a subrecipient. In addition, the term “program” could refer to a federal award at any level: federal, pass-through, recipient, and subrecipient.</p> <p>Because state agencies that pass-through funds have some, but not all, of the same responsibilities of federal agencies when they award funds, it is important to differentiate between which responsibilities the federal agency has passed to state agencies as compared to those that stay solely with federal agencies. Please see the following examples of this type of language in your current proposal:</p> <p>“(3) An <u>agency</u> may not award Federal financial assistance without assigning it to a program that has been included in the CFFA as required in this section unless there are exigent circumstances requiring otherwise, such as timing requirements imposed by statute. (b) For each <u>program that awards</u> Federal discretionary awards, non-discretionary awards, loans, insurance, or any other type of assistance, <u>agencies</u> shall submit the following information to GSA:”</p> <p><u>Limit Additional Compliance Requirements:</u> We believe that allowing federal agencies to “add back specific requirements under program specific tests and provisions” may limit cost savings from the reform efforts. Allowing federal agencies to add back their own requirements will undermine the President’s objective to</p>

achieve lower costs. However, if OMB retains this flexibility for federal agencies, we strongly recommend that OMB develop some “fences” surrounding adding compliance requirements to specific tests and provisions to ensure that any additions are the most important and impactful requirements.

If OMB allows a federal agency to “add back specific requirements under program specific tests and provisions” the federal agency should be required to annually analyze the number and severity of the audit findings related to these additional requirements. Federal agencies should provide their analysis to OMB to justify retaining the additional requirement for another year. Requiring the annual analysis of findings will ensure that federal agencies are meeting their requirement to develop a baseline, metrics, and targets to track, over time, the effectiveness of Single Audits.

Make the Federal Audit Clearinghouse Available:

OMB should retain the requirement contained within its proposal to make the full content of the Federal Audit Clearinghouse (FAC) available to the public to relieve some administrative burden. Currently, subrecipients must spend administrative money to submit information electronically to the FAC and then spend more resources to provide the same information to each pass-through entity which provides them federal funds. By making the full content of the FAC available on the web, OMB could reduce the administrative burden for thousands of grantees.

Although there are warnings on the FAC website instructing auditors and auditees not to upload protected information, OMB should study if they have in fact uploaded such information. If OMB finds that auditors are placing protected information within the FAC, they should evaluate the need to report these auditors to their state’s board of accountancy for ethical misconduct. However, if OMB finds that selected federal agencies are instructing auditors to include protected information; those federal agencies should shoulder the cost of reviewing and redacting this information from the full FAC. Making the information available from the FAC is a way to reduce costs and increase accountability and coordination across the entire grants management universe.

Issue Compliance Supplement Earlier:

If Congress should ever want Single Audits completed faster than the current requirement of nine months, it will be difficult, if not impossible, for auditors to complete Single Audits faster if the compliance supplement is issued late in the year in which it covers. In order to complete the audit timely, auditors for large entities start testing programs in April in advance of their June 30th year-end. Five to six months later, OMB issues the final compliance supplement. Auditors then have to review and possibly modify their testwork to comply with the new guidance and evaluate changes in program clusters, which could affect major program determinations. This is very inefficient and finalizing the supplement much earlier could help in improving the timeliness of Single Audits.

To increase the efficiency of the tens of thousands of Single Audits that are performed each year, OMB should consider requiring the release of the compliance supplement at least 180 days prior to the end of the fiscal year to be audited. The 180 day benchmark would mirror the requirement that federal agencies must follow when requesting that a program be audited as a major program to allow for planning. Changes to the compliance supplement (e.g., clustering of programs) may add another program to be audited as a major program. Auditors and grantees need the 180 days to increase the efficiency of their planning and reduce their administrative costs.

Administrative Requirements (Circulars A-102, A-110, and A-89)

Question #1 – Do you agree with the changes that OMB is proposing in the area of “administrative requirements?” If no, please explain your objection(s) and offer suggested improvements.

Office:	Comments:
Auditor	We agree with the proposed changes in the area of “administrative requirements,” particularly in the area of consolidating the circulars to relieve administrative burden. We support OMB endeavors to eliminate confusion for entities with this consolidation of circulars, within its goal to “. . .eliminate duplicative language and also provide clarity when there are important substantive policy variances across entities.”
Auditor	The Office of the State Auditor does not have any comments on this question.
Auditor	We have no suggestions or comments.
Auditor	<p>The simplified Section .506 Records and Retention (c) (1) language stating that the 3-year retention period starts on the day the award recipient submits its final expenditure report may be an issue in some grant award programs. We have pulled documents up to seven years after the final expenditure report has been submitted.</p> <p>Revised Section .808 on Closeout is an improvement because as a general rule, we have only had 90 days to complete all closeout actions after final report was submitted. This doubles the closeout period.</p>
Auditor	We support the changes proposed by OMB and offer no suggested improvements.
Auditor	We have no significant concerns or suggestions for this section. We agree with the movement of provisions regarding some subrecipient monitoring tools and pass-through responsibilities from Circular A-133 and the Compliance Supplement to the Administrative Requirements section. Many auditees mistakenly believe that Circular A-133 and the Compliance Supplement include requirements and guidance only for auditors. This repositioning will help clarify the pass-through entity’s responsibilities.
Comptroller	<ol style="list-style-type: none"> 1. Subchapters A-E – We are very supportive of consolidating the administrative requirements in the various OMB Circulars. 2. Section 205 – We are supportive of requiring the pre-award consideration of each proposal’s merit and each applicant’s financial risk. This appears to be primarily a requirement of the federal agencies. The State agencies are already using these factors to subgrant or subcontract federal funds. 3. Sections 203 and 204 – We are supportive of at least a 30 day notice of funding opportunity on the Grants.gov website. If the state does not get adequate notice of grant availability, then we will not be able to timely submit a complete proposal. In addition, we are supportive of the change in title from CFDA to CFFA. We would ask that the CFFA site be updated more timely; perhaps quarterly? 4. Section 204 – We are supportive of a standard announcement format for funding opportunities if it would be consistently applied among the various federal departments. 5. Paperwork Reduction Act – Section 206 <ol style="list-style-type: none"> a. We are supportive of a consistent use of information collection systems. There is concern that within each federal Department there are many data, fiscal, programmatic systems to collect information. The systems to collect fiscal information alone are many. There are several different systems to draw funds. It would be wonderful if there would be one system to draw funds, one system to report

	<p>fiscal data and one system to report other data elements that are required by various federal agencies. The concern about so many systems is whether it is useful (is anybody looking?) to the federal government or is it useful to the constituents.</p> <p>b. Consistent requirements for contracting would be useful.</p> <p>c. The current system for submitting the FFATA information is not a user friendly system. It appears that not enough resources (people or money) have been made available to keep this system working efficiently. Who at the federal government is using this system?</p> <p>6. Additional Suggestions</p> <p>a. Subchapter C and D Section 401 – We are supportive of the inclusion of terms and conditions for federal awards that are either in one place (general terms) or are included with the grant award (specific terms). One concern with the general terms is that they be consistent with all federal agencies and are located in one place. Where would this place be? Should this OMB proposal state that the agencies shall be consistent in locating the guidance in one place and that the general guidance shall be consistent? If you leave this document as is, you will not have consistency across agencies.</p> <p>b. Section 501 – We are supportive of monitoring guidance, maybe consistent monitoring guidance in the new Circular? It would be wonderful if State’s could receive consistent monitoring guidance (not mandated) from the federal government. We agree that a subaward may include an indirect cost component but objects to having a set rate. A maximum rate of 10% of total modified direct costs could be set but pass through entities should be allowed to set the indirect cost rate for their agreements by policy or negotiation. It is important to note any increase in administrative costs will reduce the amount available to carry out the objectives of the grant. If current language is adopted, Section 501(c)(1)(D) should also include the following: or the pass through agency’s negotiated rate (with negotiation between parties), or the federal statutory rate limitation. Another concern with this area is the requirement to notify subawardees of the actual dollars when multiple grants are used. This would be a major undertaking to come up with a state system to do that. Currently, regulations do not require notification of the amount by grant. The information is available if requested by the subawardee.</p> <p>c. Section 502 – We are supportive of the language updates in Circular A-11.</p> <p>d. Section 503 – We are supportive of the changes in language for property standards as long as it states that states will follow their state law if more restrictive.</p> <p>e. Section 504 – We are supportive of the language changes for procurement standards.</p> <p>f. Section 506 – We are supportive of the changes to the language for record retention and access as long as there is additional clarification for those grants that go for multi-year periods. What is the definition of a budget period or project period? Is there a difference? Some projects last for ten years, which could be problematic in retaining all information for three years past the ten year period. What does the term “renewed” mean in the first paragraph of 506(a)(1)? What happens when the federal agency is not timely and closes our grants after the three year period?</p> <p>g. F. Section 508 – We are supportive of the language updates for closeout action for federal awards.</p>
Auditor	We generally agree with the proposed changes.
Auditor	<p><i>.203(a)(1) – The CFDA, or any OMB-designated replacement, is the single, authoritative, government-wide comprehensive source of Federal financial assistance program information produced by the executive branch of the Federal Government.</i></p> <p>This section says we must rely on the Catalog of Federal Domestic Assistance (CFDA); however, OMB and the AICPA acknowledge (e.g., Government Audit Quality Center Alert #156) the CFDA is not always reliable and, in some cases, has significant errors. While General</p>

	Service Administration is merging the CFDA into the new System for Award Management (SAM) website, it seems logical to assume the same underlying discrepancies may be carried over into SAM. We suggest OMB modify this section.
Comptroller	We are in agreement with OMB's proposed changes with regard to administrative requirements (Circulars A-102, A-110, and A-89). We have no further suggestions/comments relative to this topic.
Auditor	<p>We generally agree with the requirements in these sections. However, we have some concerns and comments for your consideration:</p> <ol style="list-style-type: none"> 1. In Subchapter A.100(b)(1), we believe the requirements imposed on recipients should be known to the agency before the award is granted in order for non-federal entity management to reassess whether to accept the financial assistance. <ol style="list-style-type: none"> a. For Subchapter A.101(3)(c), we question why non-U.S. based entities receive less scrutiny than U.S. based entities? 2. In Subchapter B, there appears to be more guidance provided on the post-award requirements than for the pre-award requirements (e.g., monitoring and subrecipient monitoring in section .501). The costs spent in the post-award phase defeats the purpose of prevention established in the pre-award phase of the award process. The whole point is that applicants should not receive one dime of federal financial assistance if they have had significant deficiencies or material weaknesses in internal control over compliance leading to improper payment, fraud, waste, or abuse. This is the point of preventing improper payments, fraud, waste, and abuse, not spending more money to try and recover these costs after the fact. <ol style="list-style-type: none"> a. For .201(b), all awards, regardless of status, should be required to adhere to pre-award requirements, not just competitive awards.
Auditor	<p>.501 (c) Subrecipient Monitoring and Management</p> <p>(3) Inform the subrecipient of the CFFA title and number, Federal award name and number, Federal award year, whether the Federal award is research and development (R&D) as defined in Appendix I – Definitions, Research and Development of this guidance, and the name of the Federal awarding agency. The pass-through entity shall provide this information to each subrecipient at the time of Federal award and with each annual continuation of the subaward. <u>If a disbursement contains funds from multiple Federal awards or non-Federal funds, the pass-through entity shall identify the dollar amount made available under each Federal award.</u></p> <p>The underlined requirement above to identify the dollar amount made available under each Federal award does not contain a timing requirement, which may limit a subrecipient's ability to comply with program requirements and obtain a quality audit. If the pass-through entity delays in notifying a subrecipient of the source of the disbursement, the subrecipient cannot properly prepare their Schedule of Expenditures of Federal Awards until they are notified by the pass-through entity of the funding they received. If it is OMB's intent to have pass-through entities notify subrecipients of their funding source at the time of disbursement, OMB will need to consider if this is possible because of the use of journal entries by pass-through entities. For example a state may disburse its General funds to a locality then after it makes its disbursement the state does a journal entry to transfer its expense to a reimbursement grant.</p> <p>While after the fact journal entries allows pass-through entities to spend their own funds before receiving federal funds, this flexibility creates uncertainty for subrecipients on how they should record these funds at the time of receipt. To help eliminate the risk that timing differences become so great between receiving the funds and being notified of the funding origin could have on the subrecipient Single Audit OMB may want to add a timing requirement to .501(c). For example OMB may want to consider using something similar to the following: As timely as possible, but no later than 30 days after a subrecipient's fiscal year-end, the pass-through entity shall notify the subrecipient of the dollar amount the pass-through entity disbursed to the subrecipient under each Federal grant.</p>
Auditor	<p><i>.304 Information Contained in the Federal Award</i></p> <p>We suggest that the requirements in Section 304 be modified to also include the information that recipients must disclose to subrecipients in accordance with Section 501(c)(3). This would ensure recipients are aware of this information and are able to provide it to subrecipients.</p>

	<p><i>.501 Subrecipient Monitoring</i> The proposal discusses a pass-through entity's responsibility for following up on audit findings reported for subrecipients, including issuing management decisions and ensuring corrective actions are taken. Section 501 appears to imply that the pass-through entity review the audit reports as available online through the federal clearinghouse. We suggest that Section 501 be modified to directly state that audit reports are to be obtained either electronically from the federal clearinghouse or, if not available from the federal clearinghouse, in paper copy from the subrecipient.</p> <p><i>.501 Subrecipient Monitoring</i> .714(d) Section 714(d) discusses that corrective action should be taken immediately after the receipt of the audit report. First, it may be helpful to clarify that receipt of the report occurs either when the report becomes available online through the federal clearinghouse or when a paper copy is received from the subrecipient. Second, if not available at the time the proposal is finalized, it may be helpful to develop a system enhancement that could notify pass-through entities when a subrecipient's audit report becomes available online.</p> <p><i>.501(c)(1)(E) Access to Subrecipient Records and Personnel</i> Appendix III (8) Section 708(d) authorizes the auditor's access to the recipient's records and personnel, but does not require the recipient provide similar access to its subrecipients' personnel for the auditor. Section 501(c)(1)(E) requires the recipient to include, in its subawards, authorization for the recipient and its auditors to access subrecipients' records and financial statements. For consistency with Section 708(d), consider whether Section 501(c)(1)(E) should be modified to also include access to the subrecipients' personnel. Similarly, consider whether Appendix III (8) should be modified to also include the auditor.</p>
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Cost Principles (Circulars A-21, A-87, and A-122)

Question #2 – Do you agree with the changes that OMB is proposing in the area of “cost principles?” If no, please explain your objection(s) and offer suggested improvements.

Office:	Comments:
Auditor	We agree with the changes proposed for “cost principles,” and appreciate the previous opportunity to comment on proposed changes. We do agree, as a state audit organization, that the time and effort reporting assists us in confirming appropriate use of funds, particularly in the smaller, local governments. We appreciate OMB’s efforts to streamline the guidance in this area and to also clarify how entities may establish internal controls that assist in validating time and effort costs.
Comptroller	Interest on Capital Assets. (C-27, (2), (B), (iii) Recommendation: Remove the qualifying language “For awards made after January 1, 2016,” and just start with “Intangible assets, such as...” This is intended to resolve issues with allowance of interest attributable to the capitalized project costs. Why delay a solution to problems? We are available to discuss.
Auditor	The Office of the State Auditor does not have any comments on this question.
Comptroller	For the most part we agree with proposed changes that OMB is proposing in the area of “cost principles”. Although we have few comments below for OMB’s consideration when finalizing Grants Reform Proposal. <u>Comment # 1:</u> Sub Chapter F, Subtitle III, Section .616, Appendix VIII (e) states that any entity that has never received or does not currently

	<p>have a negotiated indirect cost rate is eligible for a de minimis indirect cost rate of 10% of modified total direct costs (MTDC), which may be utilized for period of up to 4 years. Also in the second paragraph it says ‘All entity may apply for one time extension of a current negotiated indirect cost rates for a period of up to 4 years.’</p> <p>If agencies have less than 10% of ICRP negotiated rates in place already, these agencies would not qualify under this proposed language. It seems like agencies that have taken time and spent resources in order to have a formalized process of calculating rates and have a negotiated rate in place would not be able to apply a flat 10%. Whereas, agencies that have chosen not to do anything will have the option to apply a flat 10% for 4 years with another 4 years of extension. This seems to create inequity between state agencies.</p> <p><u>Comment # 2:</u> Sub Chapter F, Subtitle VI, Section 621, C-27 (B) (III) seems that allowability of interest for awards made after January 1, 2016.....interest attributable to the portion of project costs capitalized in accordance with GASB 51 is allowable. We appreciate that OMB recognized that interest on financed intangibles should be allowable, but we are concerned about the award date (on or after January 1, 2016) rather than a point in time cutoff. Applying the January 1, 2016 award date will be very difficult because it requires governments to determine interest allowability on a grant by grant basis rather than for the government as a whole. This should be effective when regulation becomes effective without having a far out date of January 1, 2016. If not, at minimum, federal or state fiscal year cutoff date should be used for implementation, audit and reduce complexity for both state and federal agencies.</p> <p><u>Comment # 3:</u> Often cooperative agreement’s directive varies and some cooperative agreements directly conflicts with the cost principles. For Example, several states have voiced specific frustration regarding National Guard Bureau’s (NGB) grants and cooperative agreement (CA) at State’s Military and Veterans Affairs departments. NGB’s cooperative agreement NGR 5-1, chapter 5 (b) (2) states that “the grantee may not request reimbursement under cooperative agreement for any item included in its indirect cost rate or not direct billed. Although, this CA allows for A-133 costs and allows for direct billed costs but does not allow for statewide indirect costs (SWCAP) which is approved by HHS, Division of Cost Allocation, therefore creating conflicting situation between regulations. If cost principles are revised to be applicable to all grants including cooperative agreements, it would eliminate complexity of allowability between federal regulations and/or cooperative grants agreement. OMB should work with National Guard to revise language of allowability of the Central Service Cost Allocation Plan.</p> <p><u>Comment # 4:</u> It is unclear to us about similar language used at several places in this proposed regulation about earned, imputed or debt interest. I have listed them all below: Subtitle VI, Section 621, C-25 (4)(e) and Subchapter H, Appendix VI, (F)(4) and Subchapter H, Appendix VI, (G)(4). All sections have similar language about interest stating that ‘funds transferred into general fund, refund shall be made to federal gov’t including earned or imputed interest from the date of transfer and debt interest if applicable, chargeable in accordance with applicable Federal cognizant agency regulations. If funds are transferred out, that would be excess fund balance, therefore, we would not anticipate any debt interest associated with it. It would help to have some clarification or examples of such situation.</p>
Auditor	We have no suggestions or comments.
Auditor	<p>The negotiated rate with the option to extend the negotiated rate for up to 4 years subject to approval of the indirect cost plan cognizant agency is the way to implement the change.</p> <p><u>Selected Items of Cost</u> Including the costs of certain computing devices as allowable direct cost supplies is a much needed clarification, especially when developing Federal award applications and utilization of resources at the end of the grant period.</p> <p><u>Collections of Improper Payments</u> The fact that the amounts collected that exceed the expense of collection shall be treated in accordance with accepted cash management</p>

	standards will be beneficial especially in recouping over benefits overpayments. In 621 C-8 it is not really clear if all recovery of improper payments is maintained by the grantee or only the amount equal to the cost of collection. We think this could be clarified.
Auditor	We support the changes proposed by OMB and offer no suggested improvements.
Auditor	We have no significant concerns or suggestions for this section.
Comptroller	<ol style="list-style-type: none"> 1. Subchapter F and Appendices IV through IX–We are in favor of consolidation of cost principles into one document. 2. Section 616 – We are in general favor of the changes to the indirect cost area, but has concerns in the following areas: <ol style="list-style-type: none"> a. Section E indicates that entities may apply for a “one-time” extension of a current negotiated indirect cost rate for a period of up to four years. What does one-time mean? Does this mean one four year period and then back to the annual rates, or does it mean that an entity can have many four year rates? How would the rate be calculated? There is no guidance on the mechanism for calculation of the four year rate. Would the entity have to use a state’s annual SWCAP or would the SWCAP need to be a four year rate? b. The state was agreeable that other federal agencies need to honor the rate that is negotiated at the federal c. The minimum flat rate of 10% for those entities that don’t have a rate would be okay for the federal government to use for entities that are applying for federal grants, but we do not want a mandated 10% rate for use in its subgrants or subcontracts. The state needs to be able to set by policy or through negotiation the indirect rate. 3. Section 621 – C-10 –We are supportive of the changed language for time and effort accounting. 4. and 5. No comments. 6. Section 621 – C-31 – We are supportive of the change in language for computing devices less than \$5,000 being recorded as supplies. 7. Section 621 – C-31 – We are supportive of the language that indicates that upon the completion of the federal award, unused supplies and inventory may be retained with no further obligation to the federal government. 8. No comments. 9. Section 621 – C-15 <ol style="list-style-type: none"> a. We are supportive of the language for eliminating the restriction on indirect costs recovered for depreciation and use allowances. This change will require adjustments with the state’s SWCAP calculation. 10. We support eliminating the requirements to conduct a lease-purchase analysis for interest costs and to provide notice before relocation of a facility. 11. Section 621 – C-42 – We support eliminating the requirement that printed help-wanted advertising comply with particular specifications. 12. Section 621 – C-12 – We are supportive of the language which allows for the budgeting for contingency funds for certain awards. With regards to Information Technology costs, it is agreed that large single grants would include estimates for IT expenditures, and for smaller grants, some type of estimates would be needed for IT costs. 13. and 14. No comments.

	<p>15. Section 621 – C-8 – We are supportive of the language allowing costs for efforts to collect improper payment recoveries.</p> <p>17. and 18. Appendix V</p> <p>a. We are supportive of the language for providing non-profit organizations with an example of the Certificate of Indirect Costs.</p> <p>b. We are supportive of OMB providing guidance on documentation for justification of indirect cost rates rather than specific examples.</p> <p>19. Other Suggestions</p> <p>a. Section 616 – We are supportive of the language for federal agency exceptions of using negotiated indirect cost rates.</p> <p>b. Section 621 – C-18, Section 503 We are supportive of the Clarification of cost principles for IT into the various sections.</p> <p>c. Section 621 – C-11, C-32, and C-53 – We support the addition in Section C-11, but has concerns about the other two sections. It has doubts that State entities would include these areas in their State policies, because the cost and management of this would be too great if handled consistently.</p> <p>d. Section 621 – C-35 – We are supportive of the policy expansion for participant support costs.</p> <p>e. Section 621 – C-14 We are concerned about the ambiguous language for defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringements. Are only the legal costs unallowable or are the other costs of state staff administration dealing with the legal issues also unallowable?</p> <p>Other Cost Principles Comments</p> <p>Section 621 – C-27(B), what is the significance of the effective date of January 1, 2016? Why is there a date for this area?</p>
Auditor	We generally agree with the proposed changes.
Comptroller	<p>In general, we are in agreement with OMB’s proposed changes with regard to cost principles (Circulars A-21, A-87, and A-122). However, we offer the following suggestions/comments relative to this topic:</p> <p>.621 Selected Items of Cost- C-10 Compensation – Personal Services (Time and Effort Reporting)</p> <p>OMB is proposing to allow the use of estimates to charge personal service costs (to include the salaries and wages of non-professional employees) to programs as long as adjustments for actual activity are made if charges are determined to not reasonably reflect activity. We do believe that this change lessens the administrative burden of the grantee. However, from the auditor’s perspective, we believe that OMB’s guidance on revising these budget estimates/distribution percentages is vague. We believe that OMB should require an annual reconciliation to actual costs and that adjustment be made for material differences.</p>
Auditor	We agree and commend OMB for combining all of the cost principles guidance into one uniform document.

Audit Requirements (Circulars A-133 and A-50)

Question #3 – Do you agree with the changes that OMB is proposing in the area of “audit requirements?” If no, please explain your objection(s) and offer suggested improvements.

Office:	Comments:
Auditor	<p>In general, we agree with the changes that OMB proposes in its “audit requirements.” We still recommend that the threshold be raised to at least \$1,000,000 or, at the very least, be indexed for inflation each year or every 2 years. As part of the audit community, we believe that performing audits of 99.7% of federal expenditures creates an onerous burden for the state audit organizations responsible for conducting these federal audits. With the realistic possibility that these proposed changes will not be implemented until 2015, we have concern that any true realization of elimination of burden is compromised by the delay and should be addressed, at a minimum, in adjusting the threshold accordingly.</p> <p>We are very supportive of the changes in the Major Program Determination as well as the increase in the minimum threshold for reporting questioned costs.</p> <p>We strongly support the elimination of some of the compliance requirements in the compliance supplement. The ability to focus on the key compliance requirements which, when violated, most likely result in improper payments, waste, fraud, or abuse, will provide a reduction in burden across programs while still providing valuable, explicit information relative to the programs. We do request that OMB provide explicit guidance for the “Special Tests and Provision” compliance requirement to ensure that this requirement is not susceptible to targeting cumbersome but less useful information and testing.</p> <p>We also strongly emphasize the need for OMB to continue its current nine month timeframe for submission of federal audits. While state audit organizations understand the need for timely information, it is not practical nor an obtainable goal to expect such organizations to complete these audits within a three or six month timeframe. Most local governments, e.g., school districts, state agencies, etc., are not required by state laws to close their accounting ledgers until two or three months after year-end close. It would be next to impossible for the financial and single audits to be completed within even the six month timeframe proposed. Before OMB recommends this change in legislation, we ask that it consider the onerous burden this decision would place on state audit organizations and their limited resources.</p> <p>Overall, we appreciate OMB’s proposed approach to focus Single Audit resources where the risks to financial integrity are greatest thus eliminating some of the less important, redundant work performed under current guidance.</p>
Auditor	<p>Subsection 1. Concentrating audit resolution and oversight resources on higher dollar, higher risk awards</p> <p>We strongly believe that OMB should take this opportunity to further relieve administrative burdens so that agencies can better utilize a higher percentage of grant monies for their intended beneficial purposes. It takes massive efforts to put new single audit reforms in place, and reforms happen on average only every 12 years. Therefore, it is imperative that OMB take full opportunity to make effective changes now.</p> <p>Regarding the change in (A) Audit threshold, we strongly encourage that it be raised to at least \$1 million rather than the \$750,000 being recommended. Raising the threshold another \$250,000 would relieve administrative costs and burdens for at least another 4,000 entities and still result in coverage of at least 99 percent of the federal dollars that are currently covered. We understand that a \$1 million threshold would mean that some smaller governments would no longer be subject to full single audits; however, we also understand that most smaller governments receive most federal grant monies through pass-through entities. Therefore, subrecipient monitoring requirements would mean that those federal dollars would still be reviewed for compliance. Indeed, the subrecipient monitoring requirements included in the post Federal award requirements, section .501, require and give options for pass-through entities to perform monitoring procedures that many</p>

	<p>would argue can be more efficient and effective than the single audit process. We believe that raising the threshold to at least \$1 million would be the best scenario. It would still provide the Single Audit oversight tool for the entities that really need it while allowing more streamlining and, in turn, the best use of federal dollars that are spent through grants.</p> <p>We greatly appreciate the changes recommended in (B) Major program determination and believe that these changes will help auditors better focus on areas of highest risk and further relieve administrative burdens. However, in regard to raising the likely questioned cost threshold in (C) Questioned Costs from \$10,000 to \$25,000, we firmly believe that this hasn't gone far enough. Just to keep up with inflation, we believe this threshold should be raised to at least \$50,000 for those entities that expend \$1 to \$3 million and to at least \$100,000 for those entities that expend more than \$3 million. Another alternative would be to scale this threshold based on a percentage of a program's expenditures, especially for smaller programs where \$25,000 to \$50,000 might seem too much. We believe that raising the threshold to only \$25,000 will not help to eliminate smaller findings that would reduce the investment of follow-up resources.</p> <p>In addition to these comments, we would like to communicate that there is some confusing guidance in the Proposed Uniform Guidance Subchapter G. Under .717 Audit Findings (b), it states that "Audit findings shall be presented in sufficient detail and clarity, and should be accompanied by sufficient supporting documentation for the auditee to prepare a corrective action plan and take corrective action..." In addition, .718 Audit Documentation (a) states that "The auditor shall prepare and provide documentation and reports that are sufficiently detailed to enable someone having no previous connection to the audit to understand..." In both of these sections, it is not clear whether OMB intends for auditors to actually include supporting documentation within Single Audit Reporting Packages. Including a government's documentation within a public report would NOT be practicable or appropriate, and we are certain this was not the true intent of these statements. In addition, supporting documentation would not be necessary to provide sufficient detail. Therefore, we believe these sections should be modified to make it clear that auditors must review and have sufficient supporting documentation available in audit documentation so that auditees can make management decisions and take adequate corrective actions.</p> <p>Subsection 2. Streamlining the types of compliance requirements in the Circular A-133 Compliance Supplement</p> <p>We applaud OMB's decision to reduce the types of compliance requirements to the six key compliance requirements which, if violated, are most likely to result in improper payments, waste, fraud, or abuse. While we appreciate the guidelines to help prevent agencies from adding additional trivial compliance requirements, we remain concerned that there will be sufficient transparent oversight when federal agencies want to add compliance requirements. The requirement that agencies must make a strong case is subjective. Therefore, it is imperative that OMB develop transparent criteria that include high quantitative and qualitative thresholds that it will use to allow additional requirements. In addition, we believe that in order for an agency to add additional requirements, those requirements must, at a minimum, be included in the law. Lastly, it is burdensome for auditors to be responsible for searching every source in addition to the compliance supplement, such as an agency's manuals and the Codes of Federal Regulations, to ensure that all higher-risk compliance requirements are covered in a single audit. We believe that the compliance supplement should serve as a fail-safe resource for auditors to know the requirements that are important to consider and test when conducting single audits.</p>
Comptroller	<p>A concern that not enough flexibility is being given to Inspector Generals, negotiators, and others in resolving outstanding issues, particularly in promoting the concepts of CAROI. It is essential that we focus on solving problems with an emphasis on both cooperative audit resolution and oversight perspectives. A reference should empower applicable representatives to seek resolutions that result in solving issues and achieving mutual, long-term benefits to programs. Situations arise with circumstances that cannot be specifically anticipated when preparing the general grant requirements. These issues are best resolved by Federal and grantee representatives reviewing the specific facts and working together to bring about an acceptable resolution. One example may be a lawsuit involving a Federal program that requires coordination of the Federal grantor and the grantee to develop an appropriate plan of action moving forward. Another example, there may be a disallowed cost with a relatively low dollar amount and/or complex circumstances that would not warrant the calculation of interest from a cost-benefit perspective.</p>

Auditor	The Office of the State Auditor agrees with the changes that OMB is proposing in the area of “audit requirements.” We highly support and encourage OMB’s limitation of federal agencies requesting to add back removed requirements.
Auditor	<p>The language in .708(b) indicates that the auditee shall “procure or otherwise arrange for the audits required by this guidance in accordance with .709 Auditor Selection.” Section .709 describes the competitive selection of an auditor. The language in these sections could suggest, or at the very least support an argument, that audits must be procured from a private sector auditor, rather than provided by, for example, the state auditor. Should this interpretation be advanced as a requirement, there will exist a conflict between the new single audit guidance and the statutes of many states which direct the state auditor to conduct audits of state governments and local governments. The language in .708(b) should be revised to read: “Procure audits required by this guidance in accordance with section .709 Auditor Selection, or otherwise arrange for such audits, and ensure they are properly performed and submitted when due.”</p> <p>In .708, the auditee’s responsibility for identifying in its accounts Federal awards (amounts received, expended, CFFA number, award number, etc.) has been deleted. Also, the described auditee’s responsibilities no longer include internal control and compliance. We recommend that the language be revised to include these responsibilities.</p> <p>The audit finding detail and clarity provisions of .717(b) could lead to an interpretation that the reporting of projected audit finding amounts is required, unless the results cannot be projected. The language in that subsection indicates that “If the results cannot be projected, auditors should limit their conclusions appropriately.” We recommend that the word “cannot” be replaced with the words “are not.”</p> <p>Section .719(e)(2) provides that the auditor is not required to audit more high-risk Type B programs than at least one fourth the number of low-risk Type A programs. It is unclear how the auditor would apply this provision should there be, for example, five low-risk A programs (1/4 of the five programs would be 1.25 programs). Would the auditor be expected to audit 1 or 2 programs? We recommend that language be included to address this likely scenario.</p> <p>Section .717(a)(2) changes the determination of whether noncompliance/internal control deficiencies is material from being in relation to a compliance requirement or audit objective, to solely in relation to a compliance requirement. It is unclear as to how the auditor would make this determination for the Special Tests and Provisions compliance requirement, which may have multiple, disparate objectives with different control structures that are not readily comparable. For example, the Medicaid Program has several audit objectives under special tests and provisions, including determining whether providers are licensed to participate in the program, whether the State ensures hospitals and other facilities meet health and safety standards, and whether the State has performed required ADP risk analyses and system security reviews on the Medicaid system. If a risk analysis was not performed and not all providers were licensed, how would you compare the findings to determine materiality to Special Tests and Provisions taken as a whole? Or, if the auditor tested two samples, one for provider eligibility (which shows a 30/60 error rate) and one for health and safety (which shows a 1/60 error rate), how would the auditor determine whether material noncompliance exists with respect to Special Tests and Provisions? The addition of language explaining how to uniformly apply this section to the Special Tests and Provisions compliance requirement will be helpful.</p> <p>We appreciate the reduction in the number of compliance requirements and recommend that a mechanism or process be put into place to preserve this efficiency by limiting any increases in the number of items covered under the Special Tests and Provisions compliance requirement.</p>
Auditor	<p>We have reviewed the proposed changes to the audit requirements (OMB Circular A-133), and believe they offer needed relief in some areas, however, we do not believe they fully achieve the objectives of a “21st Century government”, which is touted to be more efficient, transparent, and creative. We are particularly supportive of the following proposals that offer some benefits for large recipients such as State governments:</p> <p>Proposed Change:</p>

The proposal refocuses the criteria for a Type A program to qualify as high-risk. Revised criteria would result in a Type A program being designated as high-risk only when in the most recent period the program failed to receive an unqualified opinion; had a material weakness in internal controls; or had questioned costs exceeding five percent of the program's expenditures. The requirement that a Type A program be audited as major at least once every three years, regardless of whether it is high or low risk, remains the same.

We are supportive of this proposal, which would provide a significant savings in audit hours. In the current year, we noted 10 Type A programs that were considered high risk as a result of a prior year internal control deficiency that was identified as a significant deficiency (not a material weakness), with no other risk factors present that would cause the program to be considered high risk. While follow up testing would be performed to determine if the significant deficiency was resolved, the number of audit hours would be significantly reduced by not requiring us to fully audit the programs in the subsequent year.

Proposed Change:

- Reduce the number of high-risk Type B programs that must be tested as major programs from at least one-half to at least one-fourth of the number of the low-risk Type A programs.
- Allow the auditor to stop the Type B program risk assessment process after this number of high-risk Type B programs is identified.

We are supportive of these proposals, which could help reduce the number of Type B programs that are required to be audited each year and the number of risk assessments required to be performed.

Proposed Change:

Further, the proposed guidance simplifies the calculation to determine relatively small Type B programs for which the auditor is not required to perform a risk assessment from the current stepped approach to a flat 25 percent of Type A/B threshold. The change allows more Type B programs to be classified as relatively small.

We support establishing a threshold for performing risk assessments on Type B programs which, if applied in the current year, would have eliminated the need to perform risk assessments on eight (8) Type B programs.

Suggestions for Consideration:

By the Office of Management and Budget's own admission in the Federal Register, the increase in the Single Audit threshold requirement from \$500,000 to \$750,000 still results in "coverage over more than 99 percent of the funds that are currently covered". We believe it is reasonable to establish this threshold at \$1,000,000 or greater.

In addition to the changes already being proposed, we offer the following suggested change which we consider to be creative as well as an increase in efficiency.

Major Program Determination:

Section .520 (Major Program Determination) of OMB Circular A-133 provides a four step, risk based approach for determining major programs. Based on our analysis of the four step process, we believe great efficiencies could be gained by making a simple adjustment in Step 1.

Step 1 instructs the auditor to identify the "larger" Federal programs, which are referred to as "Type A Programs." When identifying Type A programs, Step 1 provides 3 tiers to base the calculation, depending upon the "total awards expended" during the year. The State, as do many States, fall into the third tier. A close examination of the State's FY 2011 Type A calculation (Step 1) indicates that it also produces a large number of "small" dollar programs in comparison to the total Type A program expenditures.

For the FY 2011 Single Audit of the State, 35 Type A programs were identified using the current guidance in Section .520. Type A programs

were calculated to be any Federal program expending \$33,645,969 or more. Type A programs comprised 95% of total Federal expenditures, producing a wide range of programs, from as low as \$34 million up to \$5.8 billion, with the average Type A program equaling \$609 million.

In keeping with the spirit of identifying the “larger” Federal programs as is the objective in Step 1, we considered the effects of changes to the percentage “multiplier” prescribed in each of the three tiers. For example, tier 3 indicates that a Type A program is the larger of \$30 million or 15 hundredths of one percent (.0015). As previously mentioned, this resulted in 35 Type A programs being identified. As an alternative, we considered the impact on the number of Type A programs identified if we used the tier 2 “multiplier” of three-tenths of one percent (.003). Type A programs, under this proposal, calculated to be any Federal program expending \$67,291,937 or more. Consequently, a more reasonable number of Type A programs seem to be identified as a result of using the tier 2 multiplier instead of the tier 3 multiplier.

The alternative methodology identified 24 Type A programs as opposed to 35 when using the current guidance. Even though 11 less programs were identified as Type A, the percentage to total Federal expenditures remained a very high 93%. We propose that OMB give strong consideration to deleting tier 3 in order to produce results more in line with its stated objective.

We propose that section .520 of OMB Circular A-133 be modified as follows:

“(b) Step 1. (1) The auditor shall identify the larger Federal programs, which shall be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:

- (i) \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which the total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million.
- (ii) \$3 million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which the total Federal awards expended equal or exceeded \$100 million but are less than or equal to \$100 million.
- ~~(iii) \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended in the case of an auditee for which the total Federal awards expended exceeded \$10 billion.”~~

When following Steps 2 through 4 of Section .520, the reduction of Type A programs from 35 to 24 will result in fewer major programs with a significant savings in audit hours/cost. It should also be noted that the 11 programs dropped as Type A programs would now become the largest Type B programs and would become likely candidates to be selected for audit, on occasion, in Step 3.

If this proposal were to be adopted, it also appears that the Single Audit Act Amendments of 1996 would also need to be amended.

The Exhibit below summarizes this proposal.

EXHIBIT

Current Methodology (Step 1)

	FY 2011 Federal Exp.	No. Type A Programs (35)	% of Total Federal Exp.	
Type A Threshold (.0015)				\$33,645,969
Type A Programs				
\$33 to \$50 Million	\$314,570,722	8	1%	
\$50 - \$100 Million	\$636,468,971	9	3%	
➢ \$100 Million	\$20,383,803,575	18	91%	
Type B Programs	\$1,095,802,565		5%	
Total Federal Exp.				\$22,430,645,833

Proposed Methodology (Step 1)

	FY 2011 Federal Exp.	No. Type A Programs (24)	% of Total Federal Exp.	
Type A Threshold (.003)				\$67,291,937
Type A Programs				
\$33 to \$50 Million	\$0	0	0%	
\$50 - \$100 Million	\$473,648,964	6	2%	
➢ \$100 Million	\$20,383,803,575	18	91%	
Type B Programs	\$1,573,193,294		7%	
Total Federal Exp.				\$22,430,645,833

Auditor

Audit Threshold: We are supportive of increasing the single audit threshold from \$500,000 to \$750,000. At the State level this would not have a major impact on the programs to be audited. However, it could impact the sub-recipient monitoring process since audits received from sub-recipients are used as a monitoring tool.

Major Program Determination: The proposal includes changes to all four steps of the risk-based approach. With regard to step 1, we are supportive of increasing the minimum threshold for a program to be Type A from \$300,000 to \$500,000. We understand this does not change the alternative three percent of total federal awards expended.

Type A Risk Assessment Criteria: We are supportive of refocusing the criteria for a Type A program to qualify as high risk. This would result in a Type A program being designated as high risk only when: a) in the most recent period the program failed to receive an unqualified opinion; b) had a material weakness in internal controls; c) or had questioned costs exceeding five percent of the program's expenditures. These changes focus the audit effort on programs deemed to have a higher risk. We understand that a Type A program still must be audited as major at least once every three years, regardless of whether it is high risk or low risk program.

Type B Risk Assessment Criteria: We are supportive of the changes to the Type B risk assessment criteria. This should eliminate the confusion under the two option approach which is the current practice.

Questioned Costs: We are supportive of increasing the threshold for reporting findings based on known or likely questioned costs. However, perhaps a sliding scale based on total program expenditures might be a better approach.

Streamlining Types of Compliance Requirements: This is an area where OMB proposes to limit the types of compliance requirements in the compliance supplement to a group of key compliance requirements which, if violated, are most likely to result in improper payments, waste, fraud, or abuse. The seven compliance requirements that would be eliminated or altered include: 1) Davis Bacon, 2) Equipment and Real Property Management, 3) Matching Level of Effort and Earmarking, 4) Period of Availability of Federal Funds, 5) Procurement and Suspension and Debarment, 6) Program Income, and 7) Real Property Acquisition. We understand this change would be implemented through the first compliance supplement to be issued after the proposed change becomes final.

We support this concept. It is our understanding that the intent is to "provide OMB annual updates to the compliance supplement and work with OMB to ensure that the compliance supplement focuses the auditor to test the compliance requirements most likely to cause improper payments, fraud, waste, abuse or general audit findings for which the federal agency will take sanctions. (p.149, .713(b) (6))

Strengthening Audit Follow-up: We are generally supportive of OMB's proposal to work with the Single Audit Clearinghouse to address privacy concerns so that single audit reports may be made publicly available. However, in paragraph .714(a), we recommend removal of "including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs." We feel auditors should not be involved in the management decision process.

Across-Agency Coordination: We are generally supportive of the revised language. This proposed language makes it clear that the cognizant or oversight agency is responsible for coordinating audits or review by other federal agencies that are made in addition to the single audit. However, the proposed guidance does not appear to require or facilitate the establishment of standard follow-up procedures among federal agencies. We believe standard procedures should be required for all federal agencies. In addition, it would be helpful to have a single automated system of tracking finding resolutions.

Other:

The audit resolution process has been and continues to be problematic. We have recently experienced confusing and conflicting information in the audit resolution process. For example, we received an audit resolution letter dated April 5, 2013 which explicitly stated the federal agency sustained the finding in our June 30, 2011 Single Audit. However, subsequent follow-up discussion between State agency personnel and federal program personnel differed, leading to follow-up emails from federal program staff providing additional guidance that was contradictory to the initial resolution letter. In addition to the initial resolution letter not being provided until ten months after the audit was released, the additional guidance suggested the federal agency wanted additional work to be performed on the June 30, 2012 Single Audit. This was problematic for three reasons. First, our audit field work for the FY 12 single audit had been completed. Second, the proposed work was not in the current compliance supplement. Third, the auditors would not be reimbursed for this work. Conflicting and confusing guidance is detrimental to the audit resolution process.

Auditor	A. We believe that raising the single audit threshold to \$750,000 and the minimum threshold for determining Type A programs to \$500,000 will
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	<p>grant relief to some small subrecipients in the state, many of which are local governments and school districts. Although these provisions may require pass-through entities to change their methods for subrecipient monitoring, the cost of such changes may be more than offset by the savings to subrecipients in avoided audit costs. In addition, increased direct subrecipient monitoring procedures by pass-through entities may be more effective than reliance on single audits of smaller subrecipients. The changes to these thresholds will have no practical effect on the state auditor's performance of the single audit for the state (hereafter "the statewide single audit"). The Type A program threshold for our state government already is, and will continue under the new proposal to be, \$30 million.</p> <p>B. Section .711(b)(4) - We noted removal of wording that previously provided guidance to auditees on reasons that prior findings may be listed as "no longer valid or not warranting further action" in the summary schedule of prior audit findings (SSPAF). We believe this lack of guidance may be problematic for entities such as the state. The SSPAF for the statewide single audit is compiled from submissions from each state agency having a prior finding required to be presented. Without such guidance, each agency will be left to its own discretion in determining that a finding is no longer valid or does not warrant further action. This situation will undoubtedly lead to inconsistency among the agencies in how they classify such findings and leave the auditor with few or no criteria for evaluating those judgments. Unless OMB is comfortable with such inconsistency, we recommend the current "valid reasons" language from Circular A-133, or some modification thereof, be inserted into the proposed guidance.</p> <p>C. Section .714(d) - We believe that linking the 6-month timeframe for issuance of a management decision to the date the reporting package is accepted by the clearinghouse is a good change. This provision sets a firm deadline for the expected date of resolution. The key to success will be for federal agencies to actually comply with this requirement.</p> <p>D. Section .717(a) - We agree with the increase in the threshold for required reporting of questioned costs.</p> <p>E. Section .719(c)(1) - We agree with the removal of findings of significant deficiencies in internal controls from the criteria that would require a Type A program to be considered high-risk. This proposal will provide some relief to audit agencies, given that more findings have been rising to the level of significant deficiencies based on audit guidance changes in recent years. For example, having this provision in place for our upcoming fiscal year 2013 statewide single audit would allow us to eliminate two Type A programs as major programs, resulting in reduced audit effort.</p> <p>F. Section .719(d)(2) - We agree with the change in the threshold for determining small Type B programs for which a risk assessment is not necessary. Had this threshold been in place for the fiscal year 2012 statewide single audit, the number of Type B programs subject to risk assessment would have decreased from 43 to 30.</p> <p>G. Section .719(f) - The change to the percentage-of-coverage rule will not impact the statewide single audit since the actual level of coverage is normally already well above 50 percent (ranging from 61 to 91 percent in the last 5 years).</p> <p>H. Revisions/reductions to the types of compliance requirements - We agree with the proposed reductions in the types of compliance requirements, but echo concerns previously expressed by others that these changes will work only if federal agencies are not allowed to freely add deleted requirements to special tests and provisions again.</p>
Comptroller	<p>1. Section 701 – We are generally supportive of increasing the audit threshold from \$500,000 to \$750,000, but had concerns as to the federal expectation with monitoring and risk assessment for those subgrantees and subcontracts which will no longer need an A-133 audit.</p> <p>Section 719 – We are supportive of the changes to the calculation for major program determination.</p> <p>Section 719 – We are supportive to the changes to Type B programs and the reduction of the number of high-risk programs.</p>

	<p>Section 717 – We are supportive of the increase of questioned cost base from \$10,000 to \$25,000.</p> <p>2. Section 713 – We are generally supportive of streamlining the compliance supplement to include only six areas: Allowed and Unallowed activities, Period of availability, Matching, Cash Management, Eligibility, and Reporting, with the Federal agency including their grant specific requirements. A couple of concerns are noted below:</p> <ul style="list-style-type: none"> a. If the compliance requirements are taken out of the A-133 Single Audit requirements, are they also taken out of any monitoring expectation? b. There is a possibility for inconsistency among federal agencies with respect to which compliance areas they select to review. This could cause confusion with the Independent Auditors and with any monitoring requirements. c. There is concern with respect to the timeliness of compliance supplement issuance and for timeliness of notification of the areas that a federal agency decides to add back in. <p>3. Section 713 – We are supportive of strengthening the guidance on audit follow-up.</p> <p>4. and 5. Section 713 – We are supportive of reducing burden on pass-through entities by ensuring across-agency coordination, but had concerns on the follow through by the federal agencies. Currently, it is hard to get a federal agency to issue a determination letter, let alone coordinating with another federal agency. There was also concern that a federal agency would be familiar with the specific issues of another federal agency’s grant.</p> <p>6. Additional Ideas – One of the ideas included reducing the time for audit submission from the current nine months down to three months or six months. We believe that there would be no way that auditors could do their audit competently and be able to submit a final audit within three months. There would be a need for increased staffing which would drive up the audit costs to State agencies and sub-awardees. In addition, there would be a need for changes to state statutes for certain entities if this change were to go into place.</p> <p>7. Specific guidance should be provided on the preparation of the Schedule of Expenditures of Federal Awards (SEFA). It would be nice to see detail of what is expected to be included in each of the areas.</p>
Auditor	<p>We generally agree with the proposed guidance.</p> <p>However, we would like clarification since the guidance is being changed related to the statement in Subtitle V—Auditors 715 (b) Financial Statements, which states, “The auditor shall determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles. The auditor shall determine whether the schedule of expenditures of federal awards is presented fairly” We recognize that this statement is not being changed from the previous guidance and that paragraph 7.19 under Basis of Accounting in the February 1, 2012 Government Auditing Standards and Circular A-133 AICPA Audit Guide says, “Circular A-133 does not specifically prescribe the basis of accounting to be used by the auditee to prepare the schedule of federal awards.” The State has several local county governments that are required to have an A-133 audit and that have chosen to prepare their financial statements including the schedule of federal awards on the cash basis of accounting. Since the cash basis of accounting is a comprehensive basis of accounting other than GAAP known as OCBOA, maybe this sentence in the proposed language could address that a basis of accounting other than GAAP (special purpose framework) is acceptable.</p>

Auditor	<p>In section .717(b):</p> <ul style="list-style-type: none"> • Consider combining items (5) and (10) for reporting purposes. As currently written, these requirements are similar. • Consider the impact of the additional reporting proposed in (6). Questioned costs resulting from cross-cutting issues can be difficult to quantify on a CFFA by CFFA basis. In some cases, the requirement to further identify costs by the underlying award numbers will be easy to address. In other cases, such as when costs are allocated to various awards through a cost allocation plan, the additional reporting will be labor intensive. • Reconsider the information required by item (8). The term ‘audit documentation’ has a specific meaning within the context of audit standards. Summarizing the sampling parameters and results, such as confidence level, error rate, population and sample size, and number of exceptions, within the finding is a reasonable reporting requirement. Requiring the inclusion of audit documentation, which is far more extensive, in a Single Audit report is not. • Items (8), (9), and (12) appear to be new. Will guidance be provided how these should be reported? (i.e., current condition, cause, effect, criteria, and context are clearly identified.) Will the new reporting requirements be reported in one of these areas or will new sections be preferred? <p>In section .718:</p> <ul style="list-style-type: none"> • The audit documentation requirements in .718 are substantially different than those required by AU-C 230.08 and Government Auditing Standards, paragraph 4.15. The audit standards require the documentation to be sufficient for an experienced auditor with no previous connection to the audit to understand. The proposed guidance requires it be sufficient for someone having no previous connection to the audit. While we recognize the importance of providing sufficient documentation, written appropriately for the regulatory entity, this change creates a far more stringent documentation requirement in the context of performing a Single Audit.
Auditor	<p>The terminology “<i>unqualified opinion</i>” occurs in several places throughout the Proposal: .716(d)(1)(A) & (E); .717(a)(5); .719(c)(1)(B); and .721(b) & (e)(2).</p> <ul style="list-style-type: none"> • For consistency with the AICPA’s U.S. Clarity Standards, OMB should consider replacing this language with “unmodified opinion.” <ul style="list-style-type: none"> .707(c) & .712 (a) – <i>Auditees and auditors shall ensure that their respective parts of the reporting package do not include personally identifiable information.</i> .712(b)(1) – <i>The auditee shall submit required data elements described in...Data Collection Form...A senior level representative of the auditee...shall sign a statement to be included as part of the data collection certifying that...the reporting package does not include personally identifiable information...</i> .712(b)(2) – <i>Using the information included in the reporting package....the auditor shall complete the applicable data elements. The auditor shall sign a statement to be included as part of the data collection form that indicates.....</i> • If .707(c) and .712(a) require both the auditee and auditor to ensure their respective parts of the reporting package do not include personally identifiable information, why does .712(b) only require the auditee to sign a statement certifying such? <ul style="list-style-type: none"> - If Personally Identifiable Information (PII) is found in a comment in the Schedule of Findings and Questioned Costs, who is responsible if a fine is assessed? The auditee must sign the certification; however, they have no control over what the auditor writes in the comments. • .710(b)(5) – <i>At a minimum, the schedule shall: (5) Identify in the schedule the total amount provided to subrecipients from each federal program.</i> <ul style="list-style-type: none"> - We suggest the presentation of this should be clarified. Should this be a separate line or a separate column on the Schedule of Expenditures of Federal Awards (SEFA)? How does this affect the Data Collection Form (DCF)? • .711(c) – <i>...the auditee shall prepare in a <u>document separate</u> from the auditor’s findings....a corrective action plan to address each audit finding included in the current year auditor’s reports.</i> <ul style="list-style-type: none"> - The members of the Single Audit Roundtable (SART) discussed this language. Based on feedback from OMB and other Federal

	<p>Agency representatives in attendance, the intent of this requirement is for entities to omit the “Schedule of Finding & Questioned Costs” header from the Corrective Action Plan (CAP) and bind it together with the auditor’s report for submission to the Federal Audit Clearinghouse. However, OMB’s use of the word “document” implies entities cannot bind the CAP together with the auditor’s report but rather, must prepare the CAP as a separate document for submission. We suggest OMB modify this language for clarity.</p> <ul style="list-style-type: none"> • <i>.717(b)(6) – The following specific information shall be included, as applicable, in audit findings:.....identification of questioned costs and how they were computed.</i> <ul style="list-style-type: none"> - We feel OMB should provide clarification on the extent of detail is required for amounts comprising a total questioned cost. For example, does OMB prefer a table or schedule listing individual check numbers and dollar amounts comprising the total questioned cost amount or is some lesser level of detail acceptable? For large questioned costs, particularly among States and larger local governments, itemized detail in the audit findings could be cumbersome. • <i>.719(b)(1)(A) –Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of: (A) \$500,000 or 3% of total Federal awards in the case of an auditee for which total Federal awards expended equal or exceed \$1 million but are less than or equal to \$100,000,000.</i> <ul style="list-style-type: none"> - Based on discussion at the SART, the \$1 million should actually correspond to the single audit threshold, which will now be \$750,000. As a suggestion, while the language does state “the larger of”, we feel it would make more sense to change the \$1 million to \$17 million (or a number where 3% time the threshold equals more than \$500,000). • <i>.719(c)(1) – The auditor shall identify Type A programs which are low-risk.....in the most recent audit period, the program shall have not had: Internal control deficiencies which were identified as material weaknesses; Other than an unqualified opinion; Known or likely questioned costs that exceed five percent of the total Federal awards expended for the program.</i> <i>.719(e)(1) – At a minimum, the auditor shall audit all of the following as major programs: All Type A programs, except the auditor may exclude any Type A programs identified as low-risk.</i> <ul style="list-style-type: none"> - In the event a major program in year one has an audit finding, opinion modification or questioned cost in only one compliance requirement category, under the present A-133 guidance, the auditor must re-audit the entire program in year two. We recommend limiting the audit of this program in year two to only the compliance requirement category that resulted in the finding, opinion modification, or questioned cost (assuming there are no other risk factors present that would cause the program to be high risk). • <i>.721 – (e) None of the Federal programs had audit findings from any of the following in either of the preceding two two audit periods in which they were classified as Type A programs.....</i> <ul style="list-style-type: none"> - Typo – the word “two” is written twice. • <i>.501(b)(3) – In determining whether an agreement between a pass-through entity and another entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement.</i> <ul style="list-style-type: none"> - We believe OMB should provide additional guidance to auditors and Federal agencies to help ensure consistency in determining the substance vs. form relationship for the subrecipient/vendor determination. Federal programs are becoming more complex and the risk of Federal Agencies disagreeing with an auditor’s professional judgment in this area is increasing.
Comptroller	<p>In general, we are in agreement with OMB’s proposed changes with regard to audit requirements (Circulars A-133 and A-50). However, we offer the following suggestions/comments relative to this topic:</p> <p><u>Audit Threshold</u> We commend OMB for proposing to raise the Single Audit threshold from \$500,000 to \$750,000. However, based on statistical information</p>

	<p>provided by NASACT, on March 27, 2013, if the audit threshold was increased to \$1 million, 9,300 entity sub recipient audit reports on a national level would be eliminated but coverage (i.e., federal dollars audited) would remain at 99%. Because of this, we stand by our comments related to OMB's ANPG in which we stated that the audit threshold should be increased from its current level of \$500,000 to \$1 million.</p> <p><u>Major Program Determination</u> We commend OMB for proposing to raise the major program threshold from \$300,000 to \$500,000. However, we believe that the threshold for Single Audit should agree with the threshold for major programs. This discrepancy has often caused confusion with smaller subgrantees.</p> <p><u>Streamlining Types of Compliance Requirements</u> We commend OMB for reducing the number of Compliance Requirements and we concur with those remaining requirements. However, we are concerned that federal agencies will add back many of the previously required compliance criteria through Special Tests and Provisions. We recognize that OMB has controls in place to limit a federal agency's ability to do this. We recommend that OMB also cap the number of previously required compliance criteria that can be included in a program's Special Test and Provisions requirements.</p> <p><u>Strengthening Audit Follow-up</u> We commend OMB's proposal to work with the Single Audit Clearinghouse to address privacy concerns so that single audit reports may be made publicly available.</p>
Auditor	<ol style="list-style-type: none"> 1. We have some serious concerns about the thresholds proposed. The \$750K threshold in section .701 is still way too low. If the foundation for a Single Audit truly is a risk-based approach, eliminating only 1% of all federal expenditures from the scope of a Single Audit does not achieve this objective. The threshold should be high enough to eliminate 5% of all federal expenditures from the scope. This still will subject 95% of all federal expenditures to a Single Audit. If the objective is to truly reduce the costs and burden, the existing proposal will not accomplish this. 2. In .703(a), we believe this whole section really defeats the purpose of a Single Audit by limiting the burden on non-federal agencies of multiple types of audits at the same time (or same fiscal year). We learned this the hard way with ARRA whereby federal agency IGs offices performed the same type work we were performing for the Single Audit. If the federal agencies do not have to comply with the Single Audit's intent, the objective of reducing costs burdens again will not be achieved. 3. In .707(a), are these procedures really "suggested" procedures or "required," since federal agencies usually write this up in peer reviews for auditors not providing justification for not performing the procedures. <ol style="list-style-type: none"> a. For (3)(A), There are no financial statements for the federal program. The financial statements are for the non-federal entity's reporting entity (i.e., financial position and results of operations). The federal program is just an expense/expenditure and related revenue within those financial statements. Fix in 4(a) below and throughout this section. b. For (3)(B), is the intent of performing test of internal controls that these are test of operating effectiveness of internal controls? If so, clarify this. c. For (4)(A), change "accounting policies" to "applicable financial reporting framework." Also, throughout this section, change references to GAAP to "applicable financial reporting framework" to be consistent with the AICPA's new nomenclature in the Clarity Standards of SAS 122. 4. In .708(c), clarify that the follow up and corrective actions for audit findings should be performed in a timely manner. 5. In .713(c)(6), we suggest clarifying the requirement "...to test the direct and material compliance requirements...." We are also very concerned that federal agencies will include eliminated compliance requirements back into the special tests and provisions. This should only be allowed if explicitly required in statute. Otherwise, limiting the compliance requirements to the proposal will achieve the objectives

	<p>of reducing costs and burdens.</p> <p>6. In .713(7)(A), we suggest adding ",fraud, waste, and abuse..." after improper payments.</p> <p>7. In .715(d)(3) (in regard to "Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly."), it should be the federal agencies' responsibility to ensure the Compliance Supplement includes all direct and material compliance requirements subject to audit, not the responsibility of the auditor to "dig" for relevant compliance requirements.</p> <p>a. For .715(d)(4) and throughout the section, change "sufficient evidence" to "sufficient appropriate audit evidence" to be consistent with AICPA Clarity Standards.</p> <p>8. In .717(a)(3), we continue to believe this threshold is too low. It should be raised to no less than \$100K, especially when known questioned costs are projected to the population. We could have an instance where a \$5 known questioned cost was projected to a material population resulting in reporting the \$5. This is unacceptable, especially if there is a remote chance that the federal agency will take appropriate action to correct the deficiencies.</p>
Auditor	<p>.710 Financial Statements</p> <p>(b) Schedule of expenditures of Federal awards (...) at a minimum, the schedule shall:</p> <p>(5) Identify in the schedule the total amount provided to subrecipients from each Federal program.</p> <p>OMB does not currently require that the Schedule of Expenditures of Federal Awards (SEFA) provide information by subrecipient. If the federal government truly wants this information, it should collect it through a method other than the SEFA. Perhaps the federal government should collect this information in a manner similar to how it collected Section 1512 data under the American Recovery and Reinvestment Act (ARRA). Increasing the data on the face of the SEFA could cause the SEFA presentation to become unclear and difficult to display in a useful format. It will also cause a significant increase in the data subject to audit within the SEFA during the Single Audit.</p> <p>As OMB makes adjustments to the SEFA through its grant reform process, OMB should work to harmonize the presentation requirements within OMB A-133 with those for the Federal Audit Clearinghouse (FAC). Currently there are differences between A-133 and FAC for SEFA elements. The FAC does not have a requirement to list the pass-through entity name, but A-133 does have this requirement along with the requirement to include any identifying numbers assigned by the pass-through entity. By not including pass-through entity information in the FAC SEFA it limits pass-through entities' ability to use the FAC in their grants management. Additionally, the FAC has no requirement to indicate clusters outside of R&D; however, under A-133 the SEFA is required to identify cluster of programs separately. While it may not appear burdensome, converting thousands of lines between two differently formatted SEFAs increases administrative costs and the risk of errors. OMB should design the required SEFA for the FAC so that it satisfies the requirements of A-133.</p> <p>.711 Audit Findings Follow-up</p> <p>(b)(2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken.</p> <p>The language above requires a description of "the reasons for recurrence" within the summary schedule of prior findings by the auditee. In addition, Section .715 Scope Of Audit (e) states that the auditor shall perform procedures to assess the reasonableness of the summary schedule of prior audit findings. It is difficult for the auditor to express an opinion as to the reasonableness of "why" something occurred, particularly if the auditor's view differs from that of the auditee. We recommend removing the requirement for the auditor to assess the reasonableness of the auditee's justification as to why a finding is repeating.</p>

Additionally, .711 Audit Findings Follow-up requires the auditee to include their planned corrective action within their summary schedule of prior year audit findings, which the auditor is required to review for reasonableness. Corrective action plans are management's response to the audit. Currently, an auditee's corrective action plans are not subject to audit under A-133. Corrective action plans are management's future strategy for how they will address their issues. Audit standards prevent auditors from providing assurance on the adequacy of prospective information. We recommend OMB require auditees to include their corrective action plans for unresolved prior year findings within a document separate from the auditor's findings as proposed in .711 Audit Findings Follow-up (c) to clearly show that management's response was not audited and that no opinion is expressed on it.

.711 Audit Findings Follow-up

(c) Corrective action plan. At the completion of the audit, the auditee shall prepare in a document separate from the auditor's findings described in section .717 Audit Findings a corrective action plan to address each audit finding included in the current year auditor's reports.

If OMB intends to require the auditee to prepare a corrective action plan in a document separate from the auditor's findings, then clarification is needed on the use and purpose of that document. Previous guidance required the preparation of corrective action plans, but there was no mention of a "separate document".

Section .717 requires the auditor to include the view of the auditee's responsible officials with the findings in the audit report, which was usually fulfilled by including the corrective action plan. This change in language implies that the auditor must still include the views of responsible officials with the finding, but that the corrective action plan will be located in a separate document outside of the Single Audit document. OMB should clarify the placement of this separate document.

.714 Management Decision

(d) Time requirements. The entity responsible for making the management decision shall do so within six months of acceptance of the audit report by the Federal clearinghouse designated by OMB. The auditee shall initiate corrective action immediately after receipt of the audit report and proceed with corrective action as rapidly as possible.

OMB should consider that the language "after receipt of the audit report" allows for a significant delay in the initiation of corrective action by the auditee. Corrective action could take place immediately when the auditee becomes aware of an issue, not after significant time has passed and the audit report has been issued. Consider removing "after receipt of the audit report" to prevent auditees from using it as an excuse for not correcting an issue when it comes to their attention during the course of the audit.

.717 Audit Findings

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs.

The above underlined verbiage requires auditors to report significant instances of abuse; this infers that it is an auditor's responsibility to test for significant instances of abuse. Per the audit standards auditors are required to only test for those items that are material. However, auditors are required to report significant abuse that comes to their attention. To be consistent with the auditing standards OMB should consider adding "that comes to the auditor's attention" after the word abuse.

.717 Audit Findings

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(b) Audit finding detail and clarity. Audit findings shall be presented in sufficient detail and clarity, and should be accompanied by sufficient supporting documentation for the auditee to prepare a corrective action plan and take corrective action, and for Federal agencies and pass-

through entities to arrive at a management decision.

The word “accompanied” is a change from the previous guidance but does not indicate where the accompanying documentation should be provided, or to whom, or when. As written, *Section .718 (b) Audit Documentation* within the proposed reform requires the auditor to retain sufficiently detailed audit documentation. The way that .717 (b) is currently written in proposal could be interpreted as a requirement for the auditor to include a copy of their audit evidence (workpapers) within the Single Audit report. Typically Federal agencies and pass-through entities only receive a copy of the Single Audit report as a byproduct of the audit. OMB should clarify if it intends for auditors to include their workpapers within the Single Audit report.

.717 Audit Findings

(b)(8) In cases where the auditor relies upon or utilizes statistical sampling techniques, the auditor must provide audit documentation to clearly show how the same was drawn, to support that the sample size utilized is appropriate and proportional to any findings or conclusions in the audit that are based on the sample, and to demonstrate that the sample was drawn in such a way that it can be expected to be representative of the population.

OMB should consider that the word “statistical” when applied to audit sampling refers to a specific type of sampling that is not always used by auditors. Auditors may also use randomized “non-statistical” sampling and project the results of that sampling to a population using auditor judgment. OMB should consider removing word “statistical” from its proposal

OMB should also provide clarification of the phrase “provide audit documentation” to indicate when auditors should provide their audit sampling documentation and who will be the recipient of this information. As currently written in the proposal it could be interpreted to mean that the auditor is to provide their documentation as part of the Single Audit or to the public at their request.

.718 Audit Documentation

(a) Sufficiency of audit documentation. The auditor shall prepare and provide documentation and reports that are sufficiently detailed to enable someone having no previous connection to the audit to understand:

OMB should consider eliminating the word “provide” in the above section. Even without the word “provide” in 718(a), collectively 718(a), (b), and (c) accomplish the same objective. Sections, .718 (a) requires the auditor to prepare sufficient audit documentation, .718 (b) requires the auditor to retain that documentation, and .718 (c) requires the auditor to make the documentation available to specific authorized parties. Including the word “provide” in section .718 (a) implies that the auditor is to distribute audit documentation in some additional form, beyond what sections (a), (b), and (c) collectively already address.

.719 Major Program Determination

(c)(1) The auditor shall identify Type A programs which are low-risk. In making this determination, the auditor shall consider the guidance in section .720 Criteria for Federal Program Risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, the program shall have not had:

The above section requires the auditor to consider section .720 Criteria for Federal Program Risk when determining Type A programs. This requirement eliminates efficiencies created in sub-sections (c)(1)(A) through (D) that specifically outline the criteria for major program determination, and instead requires auditors to perform an annual multi-variable risk assessment of all potential Type A programs. OMB should consider evaluating if it is still necessary to include all of the risk factors in .720 Criteria for Federal Program Risk for determining Type A programs in order to better focus the Single Audit, and avoid unnecessary administrative requirements.

Auditor	.111 - Effective Date for Certain Audit Requirements
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We believe that a separate, earlier effective date should be added to Section 111 for the requirements in Section 719. Specifically, we suggest that the effective date for Section 719 should be upon issuance of the guidance. As summarized in 78 FR 7293 (February 1, 2013), "...changes to the major grant determination will result in more targeted audit coverage of programs with internal control weaknesses. They provide appropriate burden relief for non-Federal entities that materially comply as evidenced by an unqualified audit opinion, and no material weaknesses in internal controls..." The governmental audit community has been under increased stress in recent years because of the increased audit effort associated with federal stimulus funding. We believe that earlier "audit relief" through changes in major program determinations can be provided independent of any other changes included in the grant reform proposal.

.707, .708, .711, .712, .715, .717

Schedule of Prior Audit Findings

Schedule of Prior Audit Findings and the auditor has been required to review it. The auditor is specifically required to follow up on prior year audit findings, regardless of whether the finding relates to a major program for the current year. In the spirit of meeting OMB's intent of achieving program outcomes while ensuring the financial integrity of the dollars spent, we suggest that OMB require that the Summary Schedule of Prior Audit Findings be prepared by the auditor instead of the auditee. Such a change would be a more efficient and effective use of the resources required to complete a single audit because the auditor is already required to follow up on prior audit findings, review this Summary, and report as current findings those prior audit findings that have not been resolved from the auditor's perspective. If the auditee disagrees with the auditor's assessment to repeat a finding for the current year, the auditee's viewpoint could be included as part of the auditee's response, as likely already occurs.

.710(b)(6)

Identification of Loans and Loans Guarantees in the Notes

The proposal adds a requirement that the loans or loan guarantees outstanding at year end be identified in the notes to the Schedule of Expenditures of Federal Awards. If the required disclosure should provide the balances of these loans or loan guarantees at year end, we suggest the guidance be modified to state this specifically. As currently written, it could be interpreted that a description of the loans or loan guarantees without balance information may be sufficient to meet this requirement.

.713(a)(6)

Responsibilities of Federal Agencies

The proposal carries forward the concept that audits or reviews conducted by federal agencies should build upon rather than duplicate single audits performed. The proposal adds guidance to Section 703(a) to indicate that planning such an audit and performing such an audit would include consideration of the working papers, sampling, and testing performed by other auditors. It may be helpful to add similar information to Section 713(a)(6) where this concept is also discussed.

.717(a)(3)

Reportable Questioned Costs

The proposal increases the threshold above which questioned costs must be reported as an audit finding from \$10,000 to \$25,000. We believe this threshold is still too low, particularly for the larger federal programs generally selected for audit as part of a single audit. We suggest that this threshold instead be based on a percentage of expenditures, such as a percentage of the entity's total federal expenditures, the Type A program threshold, or the expenditures for each grant/cluster.

.717(b)

Audit Finding Detail and Clarity

The proposal adds a requirement in Section 717(b) that findings "... should be accompanied by sufficient supporting documentation for the auditee..." It is unclear to us what the intent of this change is and we are concerned that it could be interpreted to mean including separate documentation beyond the information provided within the finding detail provided as part of the reporting package. If that is the intent, we are

concerned that this would require that portions of our working papers, which are considered to be confidential during the audit, be provided to the auditee prior to becoming public record at the completion of the audit. We suggest that the guidance be modified to instead read "... should include sufficient information for the auditee..."

.717(b)(6)

Audit Finding Detail and Clarity

Section 717(b)(6) requires that, when known questioned costs are reported, the finding detail identify the questioned costs by applicable award number. We believe that this requirement may place an excessive burden on the auditor. For example, for cross-cutting findings, we believe it would be very challenging to determine the portion of costs questioned for each affected award number. We suggest the guidance be modified to identify questioned costs by award number only when practical. In addition, it may be helpful to provide additional guidance on how to best report the existence of questioned costs when a specific dollar amount cannot be determined.

.718(a)

Appendix I

Audit Documentation

Section 718(a) clarifies that sufficient audit documentation relates to *someone* having no previous connection with the audit. We believe this terminology could be interpreted more broadly than intended and/or result in excessive audit documentation. Although similar requirements are included in auditing standards, specifically AU-C 230, those standards require that sufficient documentation relate to an *experienced auditor* and also define the term. For consistency with auditing standards, we suggest the guidance be modified to use the term and definition of "experienced auditor." Alternately, we suggest that the guidance be modified to relate sufficient documentation to an "experienced person" and also define an experienced person in Appendix I.

.719

We strongly believe that the effective date for section 719, Major Program Determination, should be upon issuance. As summarized in 78 FR 7293 (February 1, 2013), "... changes to the major grant determination will result in more targeted audit coverage of programs with internal control weaknesses. They provide appropriate burden relief for non-Federal entities that materially comply as evidenced by an unqualified audit opinion, and no material weaknesses in internal controls ... "The governmental audit community has been under increased stress in recent years because of the increased audit effort associated with federal stimulus funding. We believe that earlier "audit relief" through changes in major program determinations can be provided independent of any other changes included in the grant reform proposal. We strongly urge NASACT to seek an earlier effective date for section 719.

.719(b)(1)(A)

Determination of Type A Programs

Although Section 701(a) requires an audit be performed for auditees expending \$750,000 or more in federal awards during the year, Section 719(b) of the proposal does not include a discussion of how the type A program threshold should be determined if the auditee's expenditures are between \$750,000 and \$1.0 million. It appears that all programs for such an auditee would be considered type B programs under Section 719(b)(2). If that is not the intent, we suggest modifying Section 719(b)(1)(A) so that it applies to auditees having expenditures equal to or exceeding \$750,000 instead of \$1.0 million.

Additional Suggestions Outside of the Proposed Guidance

Question #4 – Do you have any additional suggestions outside of the proposed uniform guidance that you would like to offer OMB?

Office:	Comments:
Auditor	<p>Shortening the submission of audit reports from the current requirement of 9 months to 6 months after the end of the fiscal year may be a helpful inclusion in this reform process.</p> <p>In section .304 we would suggest an identifier or code that would enable states to better identify a grant in the various systems used to draw federal funds. (ASP,PMS, G-5, etc.)</p>
Comptroller	<p>We believe that OMB has addressed many of the comments/suggestions that we offered in our response to the ANPG. Therefore, we do not have any additional suggestions, nor do we have any suggestions for changes to guidance outside of this proposal.</p>

Terminology-Related Comments:

Office:	Comments:
Auditor	<p>.104(a) The proposal uses the term “E.O.” in some instances and it is unclear if this term is intended to mean “Executive Order” or something else. It would be helpful to define E.O. to provide clarity within the guidance. The first use of the term E.O. occurs in Section 104(a).</p> <p>.203(c) / .502(d) / .504(i) Some sections of the proposal use the term “agency” in a manner that appears to be a reference to the federal agency. For example, “agency” as used in Sections 203(b) and 502(d) appear to be referencing “federal agency.” In other places, such as the guidance that follows Section 504(i), it appears agency may be intended to reference the recipient and/or subrecipient. To provide additional clarity, we suggest that references to “agency” be modified, where appropriate, to specify the intended reference more clearly.</p> <p>.502(i)(3) / .504(e)(2)(F) The proposal uses the phrase “prime recipient” in Section 502(i)(3) and the term “prime contractor” in Section 504(e)(2)(F). These are the only instances of the term “prime” in the proposal and they are not defined in the appendix. We suggest removing those two references to avoid confusion within the guidance.</p> <p>.504(i) Appendix II In certain sections of the proposal, the terms “you” and “your” are used. It may be helpful to consider if alternate terminology, such as referring to the recipient and/or subrecipient, would improve consistency and clarity.</p> <p>.505(e)(1) Appendix I Disallowed Costs Loan At times, the proposal uses the term “government” without any additional descriptor to indicate the government being referenced, such as state, federal, etc. It would further clarify the guidance to provide that additional descriptor where not already provided.</p>

	.621 At times within Section 621, it appears the terms “entity,” “recipient,” and “institution” are used interchangeably. Particularly for requirements intended to apply to any non-federal entity and not institutions of higher education exclusively, we suggest this section be modified to use consistent terminology for the intended meaning.
	.621(C-44)(4) Section 621 (C-44)(4) references Financial Accounting Standards Board Statement 13. We suggest the more appropriate reference would be to Government Accountings Standards Board Statement 62.
	.707, .715, .716, .717, .719, .721 The types of opinions, when referenced, should reflect the revised terminology used in the clarified auditing standards issues by the American Institute of Certified Public Accountants (AICPA) (e.g., unmodified instead of unqualified, etc.).
	.710 Appendix I Federal Program Student Financial Aid (SFA) The proposal maintains the use of the term “student financial aid” whereas the compliance supplement has moved to the term “student financial assistance.” It would be helpful for the desired term to be used consistently in both documents.

Clarifying Editorial Comments:

Office:	Comments:
Auditor	.501(e) It appears the words “to follow” in the second sentence should be deleted. .501(h)(5) In the first sentence, it appears there may be missing or extraneous words, particularly in the portion of the sentence that reads “... Federal share of the project the simplified acquisition threshold...” .504 It appears the formatting of the guidance that follows Section 504(i) could be improved to provide additional clarity. For instance, it is not clear whether this guidance is part of Section 504(i) and, thus, does not apply to states. As another example, there appears to be a subsection VI, but no subsections I, II, III, IV, or V that precede it. .505(a) The second sentence in Section 505(a) is confusing, particularly the portion of the sentence that reads “... policies, recipients that <u>inform</u> the evidence....” It would be helpful to clarify this sentence. .507(a)(2) It appears the word “responsibly” should be “responsible.” .612

	<p>The references to “Subtitle V Special Considerations for” appears to be missing the phrase “Institutions of Higher Education.”</p> <p>.621(C-10) (8)(B)(ii)(b) In the second sentence, it appears a modification should be made related to the text “... serves as a consultant consultant outside....” to resolve the duplicated word.</p> <p>.719(e)(2) The sentence states “... paragraph does not <i>required</i> the....” and it appears it should read “... paragraph does not <i>require</i> the....”</p>
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