Major Program Determination in Uniform Guidance Audits Under the New Standard: Mastering the Four-Step Risk Model

WEDNESDAY, MARCH 2, 2016, 1:00-2:50 pm Eastern

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Major Program Determination in Uniform Guidance Audits Under the New Standard

March 2, 2016

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Major Program Determination in Uniform Guidance Audits Under the New Standard: Mastering the Four-Step Risk Model

March 2, 2016
Presenters

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  - Nina Bahazhevska
  - Jennifer Mosera

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  - Jimmy Mo
  - Helen Martin
Learning Objectives

Obtain an understanding of Major Program Determination in Uniform Guidance (formerly referred to as Circular A-133) Audits, using the four-step risk evaluation model
Agenda

• Uniform Guidance structure and effective dates
• Applying Risk-Based Model
  • Identifying “Type A” programs
  • Identifying low-risk “Type A” programs
  • Identifying high-risk "Type B" programs
  • Determining major programs
• Key planning consideration for audits for the year end prior to 12/31/15
• Key planning considerations for 12/31/15 audits and later
• Case studies and illustrations
The Uniform Guidance – What is it?

• The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – more commonly known as the “Uniform Guidance” (codified at 2 CFR Part 200)

• The Uniform Administrative Requirements, Cost Principles and Audit Requirements for federal supersedes and combines requirements of eight existing OMB Circulars:
  • Administrative requirements:
    • A-102 State and Local Governments
    • A-110 Colleges, Universities and Not-for-profits
    • A-89 Catalog of Federal Domestic Assistance
  • Cost Circulars:
    • A-21 Colleges and universities
    • A-87 State and Local Government
    • A-122 Not-for-profits
  • Audit requirements (A-50 and A-133)
Key Effective Dates

Federal Agencies

- Must implement policies and procedures by promulgating regulations to be effective December 26, 2014

Non-Federal entities

- Will need to implement the new administrative requirements and cost principles for all new Federal awards and additional funding to existing awards made after December 26, 2014 (procurement exception)

Audit Requirements

- Effective for fiscal years beginning on or after December 26, 2014 for 12/31/15, 6/30/16
Key Effective Dates Items

- Non-Federal entities wishing to implement entity-wide system changes to comply with the Uniform Guidance after the effective date of December 26, 2014 will not be penalized for doing so.

- Procurement – can elect to delay until for two full fiscal year after December 26, 2014
  - December 31, 2016 or June 30, 2017
  - Must be documented
Uniform Guidance Structure

• **6 Subparts A through F**
  - Subpart A, 200.XX – Acronyms & Definitions (All Circulars)
  - Subpart B, 200.1XX – General Provisions (All Circulars)
  - Subpart C, 200.2XX – Pre Award Requirements (A-110 and A-89)
  - Subpart D, 200.3XX – Post Award Requirements (A-110 and A-102)
  - Subpart F, 200.5XX – Audit (A-133)

• **11 Appendices - I through XI**
  - SF-SAC Appendix X
  - Compliance Supplement Appendix XI
Pre-Major Program Determination Considerations

- Determine the audit period of the entity audited
- Identify the timing of the audit
- Obtain Schedule of Expenditures of Federal Awards ("SEFA")
- Audit SEFA
Major Program Determination

• Reminder – Single audit threshold for audit to increase to $750,000
  • Currently $500,000

• Located in 200.518 Major Program Determination
• Four-step approach
  • Step 1 – Identify Type A programs
  • Step 2 – Identify low-risk Type A programs
  • Step 3 – Identify high-risk Type B programs
  • Step 4 – Determine major programs
Risk Assessment Procedures and Major Program Determination

Step 1: Identify "Type A" programs
Step 2: Identify low-risk "Type A" programs
Step 3: Identify high-risk "Type B" programs
Step 4: Determine major programs to audit
Step 1: Identify Type A programs

- Type A/B program determination revised to $750,000
  - Currently $300,000

<table>
<thead>
<tr>
<th>Total Federal Awards Expended</th>
<th>Type A/B Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>= to $750,000 but &lt; or = to $25 million</td>
<td>$750,000</td>
</tr>
<tr>
<td>&gt; $25 million but &lt; or = to $100 million</td>
<td>Total Federal awards expended X .03</td>
</tr>
<tr>
<td>&gt; $100 million but &lt; or = to $1 billion</td>
<td>$3 million</td>
</tr>
<tr>
<td>&gt; $1 billion but &lt; than or = $10 billion</td>
<td>Total Federal awards expended X .003</td>
</tr>
<tr>
<td>&gt; $10 billion but &lt; or = to $20 billion</td>
<td>$30 million</td>
</tr>
<tr>
<td>&gt; $20 billion</td>
<td>Total Federal awards expended X .0015</td>
</tr>
</tbody>
</table>
Step 1: Identify Type A programs

• What is a federal program?
  • Awards with the same CFDA number
  • If no CFDA number, all federal awards from the same agency made for the same purpose

• Clusters
  • Research and development
  • Student financial assistance
  • Other clusters

• Federal programs not labeled Type A must be labeled Type B programs
Risk Assessment Procedures and Major Program Determination

Step 1: Identify "Type A" programs
Step 2: Identify low-risk "Type A" programs
Step 3: Identify high-risk "Type B" programs
Step 4: Determine major programs to audit
Step 2: Identify Low-risk Type A Programs

A-133 Criteria

- Audited as a major program in the last two years
- In most recent period, had no audit findings, with an exception for auditor judgment in limited cases
- Auditor risk consideration
  - Grantor oversight
  - Inherent risk
  - Results of audit follow-up
  - Changes in personnel or systems

Uniform Guidance

- Audited as a major program in the last two years
- In most recent period, had no of the following for program:
  - Modified opinion
  - Material weakness in internal control
  - Known or likely questioned costs that exceed 5% of the total expenditures of the program
- Only Auditor risk consideration
  - Grantor oversight
  - Results of audit follow-up
  - Changes in personnel or systems
Step 2: Identify Low-risk Type A Programs

• If no low-risk Type A programs...
Risk Assessment Procedures and Major Program Determination

Step 1: Identify "Type A" programs
Step 2: Identify low-risk "Type A" programs
Step 3: Identify high-risk "Type B" programs
Step 4: Determine major programs to audit
Step 3: Identify High-risk Type B Programs

**A-133 Criteria**

- Two options (greater than $100,000)
  - Option 1: Perform risk assessments on all Type B programs and select at least 50% of Type B programs identified as high risk up to the number of low-risk Type A programs
  - Option 2: Perform risk assessments on all Type B programs until as many high-risk Type B programs have been identified as there are low-risk Type A programs

**Uniform Guidance**

- Perform risk assessments on Type B programs until high-risk Type B programs have been identified up to at least 1/4\textsuperscript{th} of the number of low-risk type A programs
- Threshold is 25% of Type A threshold (greater than $187,500)
Step 3: Identify High-risk Type B Programs

• Criteria for risk
  • Current and prior audit experience:
    • Weaknesses in internal control
    • Prior audit findings
    • Programs not recently audited as major
  • Oversight exercised by Federal agencies and pass-through entities
  • Inherent risk of the Federal program:
    • The nature of the Federal program
    • The phase of a Federal program in its life cycle at the Federal agency and the auditee
    • Type B programs with larger Federal awards expended
Step 3: Identify High-risk Type B Programs

- Except for known material weakness in internal control or compliance problems a single criteria in risk seldom cause a Type B program to be high risk
- When identifying which Type B programs to risk assess, the auditor is encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time
Risk Assessment Procedures and Major Program Determination

Step 1: Identify "Type A" programs

Step 2: Identify low-risk "Type A" programs

Step 3: Identify high-risk "Type B" programs

Step 4: Determine major programs to audit
Step 4: Determine Major Programs

- All high-risk Type A programs
- All high-risk Type B programs
- Such additional programs necessary to comply with the percentage of coverage rule
  - UG - 40% (not low risk) or 20% (low risk)
  - A-133 - 50% (not low risk) or 25% (low risk)

NONE of the 4 steps in the MPD process outlined may be bypassed just because minimum coverage is achieved
Step 4: Determine Major Programs - Low-Risk Auditee

**A-133 Criteria**

- Single audits performed on annual basis and data collection form submitted within required timeframe
- Auditor's opinions on financial statements and SEFA unmodified
- No material weakness under GAGAS
- In either of the preceding two audit periods, none of the TYPE A programs had:
  - Material weakness
  - Material noncompliance
  - Known or likely questioned costs that exceed 5% of total federal awards expended for a Type A program

**Uniform Guidance**

- Single audits performed on annual basis and data collection form submitted within required timeframe
- Auditor's opinions on financial statements and SEFA unmodified
- No material weakness under GAGAS
- No going concern opinion
- In either of the preceding two audit periods, none of the TYPE A programs had:
  - Material weakness
  - Modified opinion on compliance
  - Known or likely questioned costs that exceed 5% of total federal awards expended for a Type A program
Risk Assessment Procedures and Major Program Determination – Helpful tips

- Documentation
  - Basis for the assessments of risk
  - Consideration for all programs
  - Consideration of clustering program
  - Categorization of programs - Type A vs B
  - Risk assessment decision is consistent with information in the audit documentation
  - Recheck the coverage achieved at the end of the audit
What Should Agencies Do Now

• Review of all new requirements against the NFP’s current practices
• Identify changes to current practices and internal controls
• Revise policies and procedures to comply with new requirements
• Train personnel
• Monitor compliance
Key Planning Consideration for Audits for the Year End Prior to 12/31/15

• Auditing through the transition - “old” vs “new” requirements:
  • Uniform Guidance applies to funding increments to existing awards in cases where the terms and conditions of the awards were modified
  • Existing federal awards that do not receive incremental funding with new terms and conditions will continue to be governed by the terms and conditions of the existing federal award – “old” requirements
    • Unless entity-wide system changes are made
Key Planning Consideration for Audits for the Year End Prior to 12/31/15

- **Auditing through the transition - “old” vs “new” requirements:**
  - Meet early with your clients to discuss nature of federal awards expended
    - Taking an inventory is important
    - Determine award periods
    - Obtain schedule of expenditures of federal awards early
  - This step is important for determining whether will be testing against “old” or “new” requirements
    - There may be audits where there is very little impact
    - There may be other audit scenarios where impact will be larger
Key Planning Consideration for Audits for the Year End Prior to 12/31/15

- Auditing through the transition - “old” vs “new” requirements:
  - Use the latest compliance supplement
    - 3.1 and 3.2 of the compliance supplement
  - Auditors will need to understand new administrative requirements and cost principles requirements
  - Sample and workpaper set up consideration
  - Clients should consider effective dates of the Uniform Guidance and implement new requirements to avoid audit findings
Key Planning Consideration for 12/31/15 Audits and Later

• New audit requirements will become effective for audits of 12/31/15 year ends
• While there are similarities to the existing single audit model, there are also key differences
• Auditors will be evaluating the potential impact on the major program determination process as well as low risk auditee status
• New audit procedures
Key Planning Consideration for 12/31/15 Audits and Later

• Use of Uniform Guidance language in the engagement letter and reports (no more A-133 language)

• Reporting of findings based on new criteria

• Updated AICPA Audit Guide, Governmental Auditing Standards and Single Audits
  • Using chapter 5-14 vs. chapters 15-24
Key Planning Consideration for 12/31/15 Audits and Later

• The UG may have the following impact on audits for 12/31/15, and later:
  • Limited auditor judgment on inherent risk for Type A programs
  • May have to test more Type B programs
  • Audit testing may increase
  • Auditing programs not audited before could lead to additional findings
Key Planning Consideration for 12/31/15 Audits and Later

• The UG may have the following impact on audits for 12/31/15, and later:
  • As required by § 200.303 Internal Controls, auditees should establish internal controls in compliance with COSO and Green book, therefore auditees may change or update IC which could require more audit work in initial years.
  • If you use third-party audit programs, consider timing of updates.
  • Be aware not to follow last year approach.
Case Study and Illustrations – Example 1

Old – Type A threshold $300,000 – 3 programs above threshold
New – Type A threshold $750,000 – 1 program above threshold

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Program 1</td>
<td>$250,000</td>
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<tr>
<td>Program 2</td>
<td>350,000</td>
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<tr>
<td>Program 3</td>
<td>500,000</td>
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<tr>
<td>Program 4</td>
<td>800,000</td>
</tr>
<tr>
<td>Total</td>
<td>$1,900,000</td>
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</table>
Case Study and Illustrations – Example 2

Old – Type A threshold $300,000 – 2 programs above threshold
  Type B de minimis - $100,000 – 2 programs
New – Type A threshold $750,000 – 1 program above threshold
  Type B de minimis - $187,500 – 2 programs

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<th>Amount</th>
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<td>Program 1</td>
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<td>Program 2</td>
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<td>Program 3</td>
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<tr>
<td>Program 4</td>
<td>800,000</td>
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<tr>
<td>Total</td>
<td>$1,600,000</td>
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</table>
Case Study and Illustrations – Example 3

Old – Percentage of coverage 50% - $1,500,000
Minimum number of programs tested – 2 programs

New – Percentage of coverage 40% - $1,200,000
Minimum number of programs tested – 1 program

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
<th>Other Considerations</th>
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<td>Program 1</td>
<td>$400,000</td>
<td>Not low risk auditee</td>
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<tr>
<td>Program 2</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Program 3</td>
<td>800,000</td>
<td></td>
</tr>
<tr>
<td>Program 4</td>
<td>1,200,000</td>
<td></td>
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<tr>
<td>Total</td>
<td>$3,000,000</td>
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</tbody>
</table>
Case Study and Illustrations – Example 5

No Type A programs

Old – Percentage of coverage 25% - $187,500
   Pick 1 or 2 for minimum coverage

New – Percentage of coverage 20% - $150,000
   Pick 1, 2, 3, or 4 for minimum coverage

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<th>Other Considerations</th>
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<tr>
<td>Program 2</td>
<td>200,000</td>
<td>Audited PY, no findings</td>
</tr>
<tr>
<td>Program 3</td>
<td>175,000</td>
<td></td>
</tr>
<tr>
<td>Program 4</td>
<td>150,000</td>
<td>Low risk auditee</td>
</tr>
<tr>
<td>Total</td>
<td>$750,000</td>
<td></td>
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</table>
Case Study and Illustrations – Example 4

1 large Type A program

Old – Program 1 could be high risk as per the inherent risk criteria – size of program (91% of federal dollars).

Only program 1 needs to be audited

New – Program 1 is low risk, Program 2 is high risk B.

Need to audit program 1 and 2

<table>
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<tr>
<th>Program</th>
<th>Amount</th>
<th>Other Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program 1</td>
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<tr>
<td>Program 2</td>
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<tr>
<td>Program 3</td>
<td>73,000</td>
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<td>Program 4</td>
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<td>$3,298,150</td>
<td>Low risk auditee</td>
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</table>
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