National Association of State Auditors, Comptrollers and Treasurers

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April 30, 2012

Daniel I. Werfel
Controller
U.S. Office of Management and Budget
725 17th Street NW
Washington, DC 20025

Dear Mr. Werfel:

As President of the National Association of State Auditors, Comptrollers and Treasurers, I am pleased to provide the association's response to *Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (including Single Audit Act), which was* issued in the February 28, 2012, Federal Register.

We understand that this advanced notice of proposed guidance represents reform ideas that the U.S. Office of Management and Budget is considering. We further understand that OMB plans to expose more specific changes in the Federal Register at a later date. Given the magnitude of the changes under consideration, we appreciate this deliberative approach, and we value the opportunity to provide our input through ongoing dialogue with OMB and the federal agencies.

Overall, we are supportive of the 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.

Reform ideas under discussion fall under three major categories: 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 commend OMB for examining each of these areas for reform, since 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.

All three areas of reform are of significant importance to our members. As such, we received an extraordinary amount of feedback on the reform ideas. In the sections that follow, we provide general feedback to the questions specifically posed by OMB. We are also attaching a matrix of all of the comments that we received from our members. Many of these comments offer other grant reform ideas. In addition, we asked our members some additional questions pertaining to monitoring subrecipients, major program and questioned costs calculations, capitalization thresholds, and proposals related to indirect cost rates. Comments received on these additional questions are also attached.

Since OMB is still in the preliminary stages of its analysis and still developing proposals for consideration, we believe it is valuable to share all of these ideas. Should you have any questions about our comments, please contact me at (334) 242-9200, or Kinney Poynter, NASACT's executive director, at (859) 276-1147.

Sincerely,

Ronald L. Jones
President

Questions from OMB Advance Notice

Overarching Questions

1. Which of these reform ideas would result in reduced or increased administrative burden to you or your organization?

   We agree with the notion that audits, audit resolution, and oversight resources need to be more focused on more meaningful, higher dollar, higher risk federal awards. We believe the amount of effort to audit smaller award recipients and subrecipients, as well as the effort and difficulty in keeping up with audit resolution and monitoring over these smaller award recipients has proven to be of little value and greater cost than benefit.

   Accordingly, we agree with the idea of raising the threshold for single audit work, and we agree with reducing the number of applicable compliance requirements to include more focus on improper payments, fraud, waste and abuse. These two reform ideas will *decrease* administrative burden particularly for smaller entities.

   However, at the state level, raising the single audit threshold will not reduce administrative burden since states will always exceed the threshold. To help ease the administrative burden for states, we would like OMB to consider changes to the major program calculation to reduce the number of programs states have to test as major. A few states have offered suggested approaches, which we are communicating separately to OMB.

   Further, we recommend revisiting Section .510 of OMB Circular A-133 regarding audit findings required to be reported, in particular the requirement to report findings for known or likely questioned costs greater than $10,000 and all instances of known fraud, regardless of the dollar amount of the fraud. At the state level, our members audit very large entities. It would be helpful for states if the $10,000 threshold for reporting questioned costs was increased. Some states provided specific examples, which are included as an attachment to this letter.

   In terms of *increasing* administrative burden, we are concerned with the possibility of increased sample sizes and lower materiality levels. We believe that by requiring the use of OMB-imposed sample sizes and materiality limits, OMB would severely limit the auditor's ability to use judgment in the determination of direct and material compliance requirements, and the use of risk assessment procedures to determine sample sizes. We believe this requirement could also increase our administrative burden by resulting in testing of overall compliance areas that do not have a direct and material effect on the grant program being tested.

   In addition, we are concerned that increasing the single audit threshold will make monitoring subrecipients more difficult given that fewer single audits will be conducted. States rely heavily on single audit reports for performing subrecipient monitoring.

   To assist in this issue, we suggest that OMB outline the type of monitoring expected of subrecipients not subject to a single audit. While we understand the importance of maintaining a monitoring presence with these small subrecipients, since these subrecipients spend small amounts of federal funds in a year, we would expect the monitoring procedures to be minimal so as not to place a significant administrative burden on states.

2. Which of these reform ideas would be the most or least valuable to you or your organization? States mentioned various reforms that were most valuable or least valuable to them, and all answers are communicated in the attached document. However, streamlining the universal compliance requirements was mentioned most frequently as the most valuable reform idea. Reforms to the

administrative requirements were mentioned frequently as the least important.

3. Are there any of these reform ideas that you would prefer that OMB not implement?

   No particular reform was identified with frequency.

4. Are there any reform ideas, beyond those included in this notice, that OMB should consider as a way to relieve administrative burden?

   Yes, as discussed earlier, states mentioned that changes to the major program calculation and threshold for questioned costs should be examined by OMB.

   A number of states also mentioned that OMB should consider increasing the $5,000 equipment threshold that is currently in Circular A-87. Many states believe that raising the $5,000 threshold for equipment would decrease the number of capital expenditures requiring prior federal agency approval for charging as a direct cost to federal programs and would further reduce the number of items required to be deducted through depreciation. Such an increase would reduce the administrative burden on both federal agencies and award recipients. A number of models were proposed by the states and are provided in the attached document.

   We also recommend that OMB consider seeking ways to reduce redundancy in federal reporting requirements as a way to further standardize federal reporting and eliminate duplication of duties of federal grantors and grant fund recipients.

Single Audits

1. In general terms, how important are single audits to your entity or to entities you audit for subrecipient monitoring?

   Single audits are **very important** to the states in terms of subrecipient monitoring. Departments rely heavily on the audit reports because they address the compliance requirements and internal controls at the subrecipient level. More on-site monitoring of subrecipients, or other techniques, would be necessary if the single audit threshold increased significantly causing an increase in the administrative cost of programs with subrecipients.

2. In general terms, what impacts would the following changes to the single audit framework have on your organization in administrative burden and in ability to provide oversight to subrecipients?
   a. Increasing the single audit threshold to $1 million?
   b. Requiring a more focused single audit (with only two compliance requirements) for any entity expending between $1 million and $3 million?
   c. Requiring full single audits for any entity expending more than $3 million?

   As independent state audit organizations, we do not anticipate that these suggested thresholds would affect our audit resources because we conduct our single audits at the statewide level. Some state auditors do conduct audits at the local government level, some of which may be affected by the suggested thresholds.

   However, the suggested tiered thresholds may increase the administrative burden associated with increased subrecipient monitoring activities that may be required by some of state pass-through entities.

3. Should the single audit threshold(s) be increased, and if so, to what extent?

   The cost/administrative burden of a single audit should not outweigh its public benefit. While NASACT members expressed various views on the exact amount, most agreed that OMB's proposed threshold changes are reasonable.

4. Which types of currently universal single audit compliance requirements do you think are most essential to identifying and mitigating waste, fraud, and abuse?

   While answers from NASACT members varied, there was general consensus that activities allowed or unallowed, allowable costs/cost principles, eligibility, reporting, subrecipient monitoring, and special tests and provisions are generally essential to identifying and mitigating waste, fraud and abuse.

5. What processes or tools should the federal government implement in order to ensure better coordination in the single audit oversight by federal agencies and pass-through agencies, including in the resolution of audit findings that cut across multiple agencies' programs?

   The federal government could allow all pass-through entities access to the full content of the Federal Audit Clearinghouse (FAC). Allowing pass-through entities access to the FAC, along with any tools federal agencies may develop, will ensure better oversight of the single audit process.

   We support any reform that will mitigate delays in the response time by federal agencies when issuing their management decisions to audit findings. NASACT has long-supported programs such as the Cooperative Audit Resolution and Oversight Initiative (CAROI) to get timely and effective resolution on audit findings.

Cost Principles

1. On indirect cost rates:
   a. Would administrative burden be reduced by having an indirect cost rate in place for four years?

      Yes, we generally believe that administrative burden would be reduced by having an indirect cost rate in place for four years.

   b. Are there any existing federal or state level statutory/regulatory/agency requirements that would prohibit recipients from using a "flat" indirect cost rate if it were proposed?

      We are not aware of any such prohibitions.

2. What are your views on the following types of indirect cost rates?
   a. A flat rate:

      Generally, we support the use of a flat rate and believe it will ease the administrative burden for small local agencies and governments that struggle with preparing and maintaining indirect cost rate proposals. We prefer that agencies and governments have a choice between a flat rate and a negotiated indirect cost rate if the grant amount exceeds a certain threshold.

      Currently several state agencies have chosen to forego preparation and negotiation of rates because it is not cost effective for them to spend the additional resources necessary for the small recovery available. However, if a flat rate was allowed, these agencies would recover some administrative costs, and the administration of federal grants would be more equitable.

   b. Longer term for negotiated rates to be in effect:

We welcome the proposed longer term for negotiated rates to be in effect as long as there is a provision to amend the proposal in the event of organizational changes, changes in a program's operation, or the addition or deletion of current grants.

c. A flat rate that would be a fixed percentage of the organization's already existing negotiated rate:

We are assuming in this response that the term flat rate would remove the current adjustment-to-actual requirement that is incorporated into the Division of Cost Allocation's commonly referred to "fixed with carry forward" method. Although removing the adjustment-to-actual requirement would be beneficial, we do not believe a flat rate that is a fixed percentage of an organization's existing rate is workable. The document indicates that OMB believes the flat rate to be a viable cost reduction opportunity for the federal government. We do not agree. The costs involved in preparing and negotiating the existing rate are small in relation to the other overhead costs to the state, which represent the largest portion of the negotiated rate. The time delays and bureaucratic inefficiencies of negotiating the SWCAP and rates are the more important consideration.

3. In general terms, what would be the cost implications of implementing each of the following reforms, and/or of all of them together?
   a. The proposed clarifications to allowable charges of directly allocable administrative support as a direct cost. As currently envisioned, reforms would clarify that project-specific activities such as managing substances/chemicals, data and image management, and security are allowable.

   We expect the cost savings of implementing this proposed clarification would be limited for two reasons. First, the areas to which the change is applicable are limited. Second, central service activities included in Section I of the SWCAP are unlikely to operate projects in these listed areas where a clear service benefit relationship could be established in order to meet the allocability requirement.

   b. Allowing costs associated with recovery of improper payments.

   While we do not believe there would be significant costs associated with allowing states to retain the costs associated with recovery of improper payments, we do believe that the current requirement to return 100 percent of recovered improper payments is a significant and perverse disincentive that is contrary to the President's initiative to remediate improper payments.

   c. Allowing excess capacity for telecommunications and public safety projects?

   Although there may be significant costs related to the excess capacity, we believe those costs are minor in comparison to the fixed costs of additional projects to add capacity or add similar projects. Overall, the federal government would be better served by participating in projects that are right-sized over their service lives.

4. Would you be potentially interested in participating in a piloted alternative for time-and-effort reporting? Is there a permanent change to time-and-effort requirements that you recommend OMB consider?

   A few states indicated that they would be interested in participating in pilot projects. We do believe that requirements related to charges for personal services (salaries and benefits as prescribed in OMB Circular A-87) should be streamlined, considering that controls over payroll costs are tested as part of the financial audit.

5. If your organization is an educational institution that does not currently receive the Utility Cost Adjustment (UCA), what are the general factors that your organization would likely consider in

deciding whether to conduct a cost study, and complete a plan to reduce utility costs, in order to justify receiving the UCA?

Not applicable. Our members are not educational institutions.

6. For organizations with CAS-covered contracts, are there differences between what is envisioned here and the standards for CAS-covered contracts in the FAR that you believe could be challenging to address?

   No comment on this question.

Administrative Requirements

1. What areas of past performance should be considered as part of a federal agency assessment of recipient risk (e.g., fulfillment of statutory matching requirements, record of sound financial management practices with no significant or material findings or weaknesses, ability to meet established deadlines)?

   All areas of past performance should be considered as part of a federal agency assessment of recipient risk and evaluation of merit. Generally, it seems that compliance with the "universal compliance requirements" contemplated in an earlier reform idea should be the focus. Specifically, federal agencies may want to consider the following factors:

   - History of having a "qualified" opinion on compliance for the major program.
   - History of audit findings where the recipient has been unable to adequately document how federal funds have been spent (i.e., non-compliance with the "Activities Allowed" and/or the "Allowable Cost" compliance requirements).
   - History of providing inaccurate or untimely financial or performance reports.
   - History of non-responsiveness to management decisions issued by the federal government.

2. What specific standards should be considered in federal agencies' evaluation of merit prior to making federal awards?
   a. How should these be applied?

      We believe the federal government should decide how best to evaluate the merits of potential federal award recipients. Federal agencies should ensure recipients have sufficient grants management knowledge to administer compliance over federal programs.

   b. What elements and what source materials should be looked at?

      The federal awarding agency should examine prior Circular A-133 audit reports and the opinions on compliance provided by the independent auditors. Federal awarding agencies should also consider how responsive the recipient was to the federal government's management decisions.

3. With respect to the existing government-wide standard information collection requests (ICRs) for grant applications and grant reporting:
   a. Do these ICRs provide necessary information to enable federal agencies to review grant applications or to monitor the progress of grant awardees?
   b. Are these ICRs unnecessarily burdensome and, if so, in what way(s)?

      We have no comment on these questions.

4. Should there be sets of standard data elements based on the type of assistance being provided (e.g. research, construction, social services, scholarships or aid program awards, etc.)?

Yes, we believe federal agencies should develop standard data elements tailored to the nature of their programs, assuming this will provide value to the federal agencies.

5. Are there any system issues and associated costs that may arise as a result of implementing the new pre-award and post award requirements? In general, what is the rough order of relative magnitude of these costs?

   There are definitely system issues and associated costs if reforms are implemented with new pre-award and post-award requirements, single audit requirements, cost principles, and administrative requirements. For the most part, we do not anticipate these changes to be overly burdensome or result in additional costs. However, one change that concerned some states is a change to the CFDA number format that would require major changes to system chartfields and to the Schedule of Expenditures of Federal Awards (SEFA) preparation process. Also, tracking cost and revenues under the Cash Management Improvement Act (CMIA) would possibly be hindered by a mid-year change in the CFDA number format because CMIA regulations require that expenditures and revenues be tracked by CFDA number.

OMB Reform of Policies Relating to Grants – Cost Principles and Administrative Requirements
Compilation of Responses from NASACT Members – April 30, 2012
(27 total responses – 18 state auditors, 8 state comptrollers, 1 state treasurer)

General/Additional Comments:

Comments
A. Reforms to Audit Requirements (Circulars A-133 and A-50) 1. Concentrating audit resolution and oversight resources on higher dollar, higher risk awards We agree with the notion that audits, audit resolution, and oversight resources need to be more focused on more meaningful, higher dollar, higher risk federal awards. We believe the amount of effort to audit smaller award recipients and subrecipients, as well as the effort and difficulty in "keeping up" with audit resolution and monitoring (if it is even done at all) over these smaller award recipients has proven to be of little value and greater cost than benefit. Accordingly, we applaud the idea of raising the threshold for single audit work to entities that expend $1 million or more in federal awards. We acknowledge the reduced burdens and costs of over 9,300 smaller entities (25 percent of the entities currently receiving single audits) by raising the threshold from $500,000 to $1,000,000, and still obtaining coverage for over 99.4 percent of federal awards expended. Additionally, we are in favor of having a tiered approach that recognizes and better focuses federal compliance work for entities that receive less federal awards and reserves a full, but reformed, single audit for the entities expending the largest amounts of federal awards. However, we believe the lower tier should be set at entities that expend between $1 million and $5 million, rather than the $3 million top range. We see that setting the upper range of the lower tier to $3 million dollars further reduces the costs and burdens to another 10,000 entities who would now undergo a reduced, more tightly focused "single audit" and the federal agencies would still be obtaining information for an incredibly high coverage of 98 percent of entities who will be receiving full-blown single audits. However, we note that by increasing the upper range of the lower tier to $5 million, an additional 7,300 entities would receive relief from costs and burdens while federal agencies would lose coverage for only another 2 percent of total federal awards. First, we believe at the $5 million level, 96 percent coverage is still an incredibly high amount of coverage. But second, we believe the relief of burdens and costs from undergoing more focused, less-than full-blown single audits to over 17,000 entities is an enormous amount of relief compared to the current regulations. For the lower tier of entities expending federal awards between $1 million dollars and $3 million (or $5 million, as we recommend), we agree with the reform ideas for making the single audits more focused on two compliance requirements. We agree that the most impactful compliance requirement for any federal program is allowable and unallowable costs and the results of auditor's tests in this area would provide the best focus on whether federal monies are being used properly (i.e., best suited compliance requirement for finding improper payments). We suspect that for many federal programs, eligibility is an equally, or nearly-so, important compliance requirement. We also think that each federal agency could already name the two compliance requirements that would best focus on how the federal award monies were spent for each federal program for which they award monies. Therefore, we strongly recommend that the selection of the second compliance requirement not be left to an annual selection by the federal awarding agency at the time the auditor is in the field. Each federal agency could easily select the two most important compliance requirements for each program and indicate those requirements in the Compliance Supplement, revising them annually if desired. This would streamline each year's audit process and remove unnecessary delays to time-critical decisions during the audit.

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For entities that would undergo a full single audit, we agree that such audits would be strengthened and improved if a full single audit was reformed. See our comments to the next sections as they relate to the specific reforms proposed. 2. Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement We agree that a full single audit should be streamlined for greater impact. Since we perform state, higher education, and county government single audits, and review school district single audit reports, we have many years of experience relevant to single audit results and federal audit resolution and monitoring (in which federal oversight and monitoring has been very limited). We do believe that reform is needed so that the entire process – from audit to resolution – is more effective and impactful. Therefore, we agree with the findings related to this topic resulting from the President's Executive Order 13520 – Reducing Improper Payments report Single Audit Workgroup Recommendations. In that report, the workgroup recommended that single audit compliance testing be refocused on the compliance requirements most likely to result in improper payments. It described the compliance requirements that could be retained in a full single audit, and the remaining universal compliance requirements would not be required to be performed unless a unique and appropriate reason exists. The reform ideas in this advance notice document carries this recommendation forward, but has been modified in two critical ways that will not help meet the objectives of reduced burdens for high impact. First, the workgroup recommended that the following compliance requirements be retained in a full single audit: • Activities Allowed and Allowable Costs/Cost Principles • Cash Management • Eligibility • Reporting • Subrecipient Monitoring • Special Tests and Provisions However, the reform ideas in this advance notice add two more compliance requirements – period of availability and suspension and debarment. We do not agree that these two compliance requirements should be retained in a full single audit, for two reasons. First, in our experience, these two compliance requirements are not the source of significant, if any, improper payments. Second, both of these compliance requirements are examples of requirements that the federal administrating agency could easily determine or obtain representation from a grantee much more efficiently than having an auditor spend time on these objectives. Fundamentally, this is not a good use of audit resources. Therefore, we strongly recommend that only the compliance requirements recommended in the Workgroup Recommendations report be retained in a future full single audit. As a secondary note to this, we are concerned about the manipulation of compliance requirements for the special tests and provisions category. Only a judicious analysis and limited use of adding requirements to the special tests and provision category will move towards true reform. We strongly recommend that some "fences" be wrapped around the use of this category to ensure that it retains only the most important and impactful requirements not addressed by the reduced universal requirements. The second critical way that the reform ideas presented in this document do not meet the objectives of this project is by allowing, at the federal agency's discretion, an option for including more compliance requirements in a single audit. We cannot achieve efficiencies, reduced costs, and increased benefits if federal agencies are allowed to opt in additional requirements outside of the special tests and provisions discussion above. We strongly recommend that the option allowing federal agencies to add additional compliance requirement categories not be moved forward in any single audit

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reform. If our recommendations in this area make their way to single audit reform, we agree that, in some instances, more testing of compliance requirements would be necessary, appropriate, and effective in helping identify potential improper payments. Finally, we agree with the comments in this advance document that refocusing the single audit compliance supplement to reduce the number of types of compliance requirements would both reduce audit burden and provide greater impact. However, we believe the reform ideas discussed in this section of our response need to be addressed. We believe the reform ideas proposed in this advance document, without modification, will not provide the reduced audit and administrative burdens and will only serve to increase them.
Introductory response As a State Audit organization, our interest in the "Grant Reform" document is primarily limited to potential reforms to audit requirements (Circulars A-133 and A-50). Generally, the ideas discussed regarding changes to the OMB cost-principle circulars and the reforms to the administrative requirements seem reasonable, however, we are not a primary stakeholder with regard to these matters. Therefore, our responses will be limited solely to the questions related to the potential reforms to the audit requirements.
General comment to overarching questions: We audit a large entity (over $20 billion in federal expenditures) and it would be helpful for us if the $10,000 threshold for reporting questioned costs could be increased. For example, we are required to report a finding in one of our major programs this year because we identified questioned costs of $40,000. This program has over $4 billion in expenditures. It is extremely difficult for the agency head to understand why this finding is reportable since it is only .001% of the total. We believe the threshold should be the greater of a percentage of program expenditures or a dollar threshold (e.g. $10,000). If the known questioned cost threshold cannot be changed, maybe the likely questioned cost aspect of the requirement could be increased.
We would like to recommend revisiting Section .510 of OMB Circular A-133 regarding audit findings required to be reported, in particular the requirement to report findings for known or likely questioned costs greater than $10,000 and all instances of known fraud, regardless of the dollar amount of the fraud. We ask that these reform efforts ensure that audit requirements are focused in areas of great concern and importance to the federal grantor. For example, we put hundreds of hours of audit effort into auditing the Community Development Block Grant program awarded through the US Department of Housing and Urban Development (HUD). The State received billions of dollars for recovery and HUD continues to make retroactive policy and regulation changes that make it very difficult to audit. We consistently find that audit findings related to this program seem unimportant to the federal grantor agency. Therefore, we question whether the hours allocated to this program are an effective use of state audit resources. We recommend that federal grantors communicate; in writing, changes in program audit requirements in a timely manner. We have noted that in some cases, federal grantors make changes to program audit requirements, but do not communicate those changes in writing. This leaves the auditor with no choice but to audit to the existing requirements, and therefore question costs that the federal grantor has no immediate desire to recover. What results is an inefficient use of state audit resources to develop audit findings or a qualification on a major program that will be essentially ignored by the grantor.
Section A - Reforms to Audit Requirements

Comments
While raising the threshold may initially take some of the pressure off smaller entities I don't believe this change will adequately address risk. Many of the larger entities, receiving the larger awards have established systems that include adequate internal controls. Entities receiving smaller awards are more likely to have a less structured environment, and more risk as a result. Also, I believe the States will have to ultimately increase sub-recipient monitoring and other oversight activities to replace the current assurance received from the audits. In the end the audit procedures eliminated by the proposal will need to be replaced by additional monitoring by the states on these high-risk, smaller entities. The State has used the single audit threshold to require local government audits. Based on our review of the related local government audit reports we not believe the threshold change and alternative procedures for the mid level entities will provide adequate coverage for the smaller local governments. Under the streaming the universal compliance requirements in the Circular A133 compliance supplement section it states: "Under this approach, a subset of compliance requirements would be targeted for increased testing, larger sample sizes or lower levels of materiality." This sounds like they are trying to dictate how an audit is completed. If that is the case, what part of the testing will be auditor's judgment and are the auditors still independent?? Where they are talking about audit follow-up they are discussing digitizing Single Audit Reports to make them more useful. If they are reducing the number of single audits, where will the usefulness come in? In the section where they are talking about reducing the burden for pass-through entities they talk about the federal government taking the lead with all negotiations however once it is resolved the audit follow-up and monitoring would revert to the primary grantee. I am not sure how this can be accomplished. If the primary grantee isn't involved with the negotiations how will they know what to follow-up on and track? This would increase the need for communication between the primary grantee and the federal government. **Section B - Reforms to Cost Principles** B.1. - Consolidating the cost principles into one document may be a good idea as long as they are able to separately identify certain requirements by entity type. B.2. - Going to a flat IDC rate instead of a negotiated rate may sound good at first, but in the long run we could see a problem with it not allowing us to recover our indirect costs to the fullest extent possible per state law. The cost savings to a state, in staff time, would most likely be more than offset by the lost indirect cost recoveries. Also, not every entity uses the same basis, so if they went to a flat rate, they would have to figure out what base to apply this rate against. The problem with using a single base is that it may not make sense for the type of pooled costs being recovered. On the plus side of a flat rate, it would allow the programs a set rate they could count on and would make budgeting and managing costs easier. This could cut back the time in preparing, reviewing and negotiating the rate, if we are not required to roll forward for each year, i.e. the rate is calculated and negotiated every four years on a stand-alone basis. Otherwise you are putting off the work for four years, but then doing four years worth of calculations in a single year. If the costs must be rolled forward, this would result in no cost savings and an overall increased workload, in the long term. B.18 – As part of providing IDC proposal documentation to NPOs, OMB should also consider providing guidance to pass-through entities on how and to what extent they are required to review IDC proposals of sub-grantees. OMB should clarify when it is the responsibility of the pass-through entity to

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review such IDC proposals and what documentation is acceptable. **Section C - Reforms to Administrative Requirements** OMB needs to consider revising the language requiring pass-through entities to include federal grant award numbers in their awards to sub-recipients. The grant award number is confusing to sub-recipients and is not necessary for them to report on their SEFAs. They should consider limiting this information to only what is relevant (i.e. CFDA # & title).
A-133 Reforms: Our biggest concern is still the tiered approach. We believe it adds unnecessary complexity and costs to the process. We believe the threshold is too low. The minimum threshold for a single audit should be $5 million (preferably $10 million); otherwise, the impact on us at the state level will be minimal from both audit relief and administrative costs. We agree with OMB reducing the number of compliance requirements that we would have to audit. This is only natural because many of the compliance requirements are really not important or material (quantitative and qualitative). We still believe that OMB should limit the compliance requirements to the most important (no more than 5 compliance requirements) and should enforce this on the federal agencies. These cross-cutting compliance requirements should also apply to all federal programs with no federal agency exceptions. We strongly disagree with allowing the federal agencies to request exceptions to the OMB compliance requirements and guidance. Many times the requested exceptions are not communicated to the auditors and primary recipients in a timely manner to plan the Single Audit audits. ARRA implementation was a classic example of this in action. Because federal agencies appear to have great flexibility in how federal programs are administered, we believe a better solution would be to require federal agencies to block grant federal assistance (related to all of each federal agencies programs) to primary recipients in the form of less federal assistance, little or no federal regulation (i.e., no “strings attached” or limited to only two compliance requirements: eligibility and allowable costs), and much greater expenditure flexibility for the primary recipient. This solution would accomplish several goals including reduced administrative costs related to regulatory compliance and less improper payments, fraud, waste, and abuse because of less federal assistance. The federal agencies could instead establish performance metrics to ensure performance outcomes are met. Administrative Costs Reforms (A-102, 110, and 89): We generally agree with the concept of consolidating and streamlining the administrative requirements. We believe they should be consistently applied across federal agencies without exception. We agree with the option of a flat rate for the indirect costs reimbursement; however, we prefer that the flat rate become the requirement instead of allowing other options. However, we want a guarantee that the preparation costs for the indirect cost proposal plan more than offset the reduction in the reimbursement rate. Our main point of this comment is that this process is unnecessarily complex and costly without the commensurate benefits (i.e., results in only regulatory costs that would otherwise be used to meet program objectives).
Overall we are supportive of the 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 effort across Federal agencies would hopefully ease the administrative burden on recipients of Federal funds.
General Comments: a. We recently completed our statewide single audit in less than 5 months for the first time. However, we found it very difficult to do so because the compliance supplement is issued so late each year. In order to complete the audit timely, we start testing programs in January each year. Five to six

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months later when the compliance supplement is finished, we then have to review and possibly modify our testwork to comply with the new guidance. This is very inefficient and could be improved by finalizing the supplement much earlier.

b. In addition, the requirement to base the major grant determination on the current year dollars spent on the program is very problematic for completion of a large state entity single audit in a timely manner. Nearly every year as we get to the final weeks of our audit and recalculate the final dollar amount for determining type A grants, we find that a new program has emerged and we have very little time to test it. In addition, we often find that a program we thought was type A, and therefore tested, suddenly falls below the newly calculated threshold; thus, we tested a program that did not need to be tested.

We recognize that using only prior year numbers to determine major programs for the current year can be problematic. However, we believe that using prior year numbers along with known major changes in program funding might be an approach to consider. For example, perhaps the prior year dollars could be used to calculate the current Type A threshold unless the current dollars decreased by more than 10 or 20%. That would allow some stability in the calculation along with a means to adjust the calculation for big swings in funding.

c. Audit issue resolution has been a continuing problem in our state. We are not talking about the time it takes the feds to contact the state about a finding, we are talking about the fact that the problem never gets fixed. The status of prior year findings in our 2011 report showed the following findings that had not been resolved:

Original Issue Year	Number of Findings
1997	1
2000	2
2002	1
2003	1
2004	1
2005	2
2007	1
2008	1
2009	3

In addition, several of these finds are material noncompliance. That means we have qualified on the compliance for some programs for many years and still nothing changes.

Given these results, we wonder what value any of our single audit efforts are achieving. Certainly, the message sent to the offending agencies is that there is no need to fix the problems because nothing will be done about it.

When developing future register notices or final guidance, OMB should avoid using the general term “agency”. This causes confusion because “agency” could refer to a federal agency that awards the funds or to a state agency that is awarded the funds that may also award these same funds to a subrecipient. Because state agencies step into the shoes of the federal government when they award these funds, it is important to differentiate between which responsibilities are passed along to state agencies (pass-throughs) as compared to those that stay solely with the federal agencies.

Comments
Some of this was a long time in coming.
Cost Principles, Section B (12) – Contingency Funds and Billed Central Services. We recommend clarification in the cost principles about whether the anticipated cost of future replacement of equipment is an allowable charge to federal awards. By piecing together examples and illustrations from ASMB C-10 and other HHS guidance, one can reach a conclusion that future replacement cost of equipment is not allowed, but it would be helpful to have this specifically mentioned in Appendix B and/or C to A-87. Example: A grantee's internal Equipment Rental Revolving Fund billed its grant an hourly rate for a dump truck that was needed for a grant-funded construction project. In addition to the costs of depreciating the original truck and its maintenance, can the grantee add a future replacement component to the billing rate so that it can accumulate funds in the event it needs to buy a new dump truck sometime in the future?

Overarching Questions:

1. Which of these reform ideas would result in reduced or increased administrative burden to you or your organization?

Comment
Reform idea that would result in an increased administrative burden would be implementing a dual single audit system. A dual system will increase the workload, requiring two separate tracking systems for grantees meeting the different thresholds and would two separate types of procedures for a desk review once the single audits are received. A high learning curve for not only the grantees determining if a single audit is required, but also for the audit firms who perform infrequent single audits and our internal staff who review the audits. A reform idea that has the potential for decreasing administrative burden is the suggestion that Federal agencies be required to conduct audit follow up, and that pass-through entities that give sub-awards would no longer be required to resolve financial and internal control issues – but would instead be free to focus on the programmatic requirements of the sub-awards. Our concern is that Federal agencies would not conduct the audit follow up, resulting in no agency (federal or pass-through) contacting the subrecipients to resolve the financial and internal control issues.
We would realize reduced burden in the number of federal compliance audits required which would assist in the demand of meeting the federal audit deadline. The tiered approach would also assist in the amount of time required to complete federal audits meeting this criteria particularly with the selection of 2 compliance requirements for those in that second tier.
As a state audit organization, the reform ideas about single audit changes would have the greatest impact on our burden. However, as noted in our comments above, without accepting our recommendations to the reform ideas, we think there will not be any reduced burdens to our organization, and likely our burden will increase.
We agree with the concept of reducing the required number of compliance requirements that must be tested and establishing a set of "universal compliance requirements" for testing. OMB may also consider removing the Period-of-Availability compliance requirement from the "universal compliance requirement" listing if the federal government does not consistently seek recovery of federal funds spent after the liquidation period. Allowing federal agencies to "opt back in" the remaining "non-universal" requirements seems counterproductive to the idea of reducing audit effort. We

Comment
would suggest OMB consider allowing auditors to use their professional judgment and decide whether to test compliance with these "non-universal" requirements based on the guidance in SAS 117 [AU 801.A8]. Further, for the "universal compliance requirements" that will be tested, requiring auditors to sample more transactions than the guidance provided by the AICPA's Audit Guide – Government Auditing Standards and Circular A-133 Audits seems unnecessary.
We believe that the following two reform ideas would REDUCE the administrative burden on smaller local governments and/or our office: 1. Increasing the Single Audit threshold from $500,000 to $1 million would result in a reduction in the number of certain smaller local governments and school districts subject to audit. Those governments would, therefore, not incur the costs and hours associated with Single Audit requirements. Under the Local Government Audit Law in Colorado, local governments with less than $500,000 in revenues or expenditures can request an exemption from audit. OMB's increasing of the Single Audit threshold to $1 million could lead to a potential statutory change in Colorado to align the Local Government Audit Law threshold with the revised Single Audit threshold which, as a result, would allow local governments to apply for an exemption from audit if below $1 million. This would cause our administrative burden to be reduced since our office most likely would have fewer local government audits to review. 2. Streamlining the identification of particular compliance requirements for those programs included in the annual Compliance Supplement could lessen our administrative burden as well as the administrative burden of smaller local governments by clarifying compliance requirements that must be tested. We believe the following reform ideas would INCREASE our organization's administrative burden: 1. Increased sample sizes and lowering of materiality under the Single Audit Act: We believe that, by requiring the use of OMB-imposed sample sizes and materiality limits, OMB would severely limit the auditor's ability to use judgment in the determination of direct and material compliance requirements, and the use of risk assessment procedures to determine sample sizes. We believe this requirement could also increase our administrative burden by resulting in testing of overall compliance areas that do not have a direct and material effect on the grant program being tested.
We do not anticipate significantly reduced administrative burden at the statewide level; however our state agencies would benefit from: B-1 and C-1 both of which related to consolidating and standardizing guidance; B-2 regarding flat rates for indirect cost recoveries, B-3 regarding alternatives to time and effort reporting could reduce administrative costs; however, there is not enough information on time and effort in the document to determine if the federal agencies will support this improvement. Additional information on item B-2 Consolidating Cost Principles with some variations (A-21, A-87 and A-122) would simplify communications between and within entities. It would also simplify understanding of allowable, allocable, and unallowable costs for the subrecipients where grants are passed through to agencies subject to different cost principles – for example, federal grants passed through from our Governor's Office to the institutions of higher education or not-for-profit entities. Consolidation of cost principles would help in preventing subjective interpretation of the regulation's applicability between grantor/grantee and the federal cognizant agencies. Often the directives accompanying cooperative agreements vary, and some cooperative agreements directly conflict with the cost principles. If cost principles are revised to be applicable to all grants including cooperative agreements, it would eliminate administrative burden and complexity it currently

Comment
creates. We do see increased administrative burden on a statewide basis and on an individual grant basis for our agencies for the following: A-1 regarding changes in Single Audit thresholds, which is likely to leave pass-through entities with oversight responsibilities but no audit to meet that responsibility; A-3 regarding increased Single Audit Follow Up, which will increase interaction with federal agencies in a way that is already nonproductive; A-5 regarding the hand off of responsibility between federal agency and pass-through entity for financial and internal control findings resolution and monitoring; the portion of B-2 regarding use of flat rates rather than negotiated rates, which appears to be more focused on cost reduction at the federal level than administrative workload reduction at the recipient level; B-15 allowing costs for improper payment recovery efforts, which is inappropriately left within the purview of the awarding federal agency and should be mandated by OMB; and C-3 regarding a new Catalog of Federal Financial Assistance, which will make the existing Catalog of Federal Domestic Assistance larger and more difficult to use.
Entities that expend less than $1 million in Federal awards would not be required to conduct a Single Audit - Of the 156 Single Audits performed by the Georgia Department of Audits and Accounts each year, only 1 entity expends less than $1 million in Federal awards per year. This reform idea would not result in any meaningful reduction of administrative burden to our office; however, we are supportive of increasing the current threshold from $500,000 to $1,000,000 or higher. Entities that expend between $1 million and $3 million in Federal awards would be required to undergo a more focused version of the Single Audit - Of the 156 Single Audits performed by the Georgia Department of Audits and Accounts each year, 25 entities expend between $1 million and $3 million in Federal awards per year. If implemented, this reform idea would reduce the audit hours at these 25 entities an insignificant amount (approximately 50 to 80 hours depending on the details of the focused version of the Single Audit). Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement for entities that expend more than $3 million in Federal awards - Of the 156 Single Audits performed by the Georgia Department of Audits and Accounts each year, 131 entities expend more than $3 million in Federal awards per year. This reform idea appears to offer a greater potential for savings in audit hours than the other ideas because it would impact every Single audit that we would conduct, most notably the Single Audit of the State of Georgia. Streamlining the work to be performed on each major program would allow the auditor to focus their audit work in areas at the greatest risk, thereby reducing the amount of over-auditing that currently exists under the present guidance. See response to item number 4 for additional ideas that would promote stewardship of Federal funds.
Absent more specific information, reform A.2. Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement, would appear to result in increased burden on many auditees and audit organizations. Increased testing, larger sample sizes, or lower levels of materiality for emphasized compliance requirements may increase the resources required for the audit. On the other hand, de-emphasizing other compliance requirements may not significantly decrease the resources required for the audit. While some compliance requirements or elements of compliance requirements may be made optional or identified for reduced audit coverage, we believe that such compliance requirements may have already been identified by many auditors as not having a direct and material effect on the applicable major program.
Increasing the single audit threshold would reduce the administrative burden the most for our organization. Reducing the applicable Compliance requirements would also reduce our administrative burden to a lesser degree.
We believe the increase in the single audit threshold from $500,000 to $1 million will have a minimal impact on subrecipient monitoring for our state.
For the Single Audit we could experience increased audit effort for entities expending more than $3 million in the following areas addressed under the caption "Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement". • subset of compliance requirements targeted for increased testing,

Comment
• larger sample sizes, • lower levels of materiality. • special tests and provisions if they are increased. At this time the impact that might be associated with some of these changes is uncertain since we do not have detailed information.
The streamlining of compliance requirements could result in reduced audit efforts and ensure that audit efforts are focused in areas of greater concern and importance. We consistently see issues we are required to audit that appear not to be as important to the federal awarding agency. Any additional clarification that can be provided to ensure the required audit efforts are focused on areas of interest to the federal grantor would be helpful.
Increasing the threshold would be a financial burden to our state. This in turn would increase audit costs as the central control would no longer be enough assurance over subrecipient monitoring.
Increasing the audit threshold will reduce administrative and financial burden for the local governments and non-profit agencies in our state. It will also reduce audit fees for those who fall below the new threshold.
We believe each of the reform ideas reduces the administrative burden to our state and local governments. Based on our fiscal year 2010 single audit data extracted from the Federal Audit Clearinghouse database, we project the increased single audit threshold would have the following effect on our local governments: • 300 fewer single audits (i.e. governments with less than $1 Million in Federal expenditures) • 484 limited-scope single audits • 440 entities still subject to a “full” single audit We estimate the average local government audit cost for <u>each major program</u> is roughly $2,500 or more. Assuming the 300 “excluded” local governments had only one major program, we project a cumulative statewide audit cost savings of at least $750,000. There would be additional savings for those governments subject to limited - scope audits, and also savings for full scope auditees resulting from reducing the number of compliance requirements subject to audit. The tradeoff for these savings to local governments is only a 0.6% reduction in audit coverage of Financial Assistance expenditure nationally. As an independent audit organization, consolidating and modifying federal cost and administrative circulars would simplify our audits, though we do not suggest this should be the primary purpose for this consolidation.
Changes to the Indirect Cost Proposal and Time & Effort requirements would reduce the administrative burden on the proposal side. However, if additional justification is necessary or additional audit requirements are employed, any savings may be lost on the back end. Streamlining the universal compliance requirements in the Circular A-133 compliance supplement would reduce burden significantly for the individuals responsible for performing the Single Audit.
On the surface, it appears as though all three initiatives would reduce administrative burden on state and local governments.
Generally, we cannot respond to the overall questions until we have more definitive information about the specific reform ideas from OMB. We have concerns about how some of the reforms will be implemented. However, we will reserve our responses to most of the questions in a future notice in the Federal Register when specific proposed revisions to existing requirements are issued.

Comment
As an independent state audit organization, the following reform ideas could potentially result in reduced administrative burden to our organization: • Reform idea A.2: Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement. • Reform idea B.1: Consolidating the cost principles into a single document, with limited variations by type of entity. • Reform idea B.2: For indirect ("facilities and administrative") costs, using flat rates instead of negotiated rates. • Reform idea B.13: Requesting that the Cost Accounting Standards Board (CASB) consider increasing the minimum threshold for disclosure statements. • Reform idea C.1: Creating a consolidated, uniform set of administrative requirements.
While we commend the goals behind the other proposed changes, we are not sure they will result in substantial audit cost savings.
Due to the lack of detail released in the register on how the federal government plans to implement these reforms ideas, we are unable to thoroughly evaluate which ones will reduce or increase the administrative burden of the Commonwealth as a whole. For example, increasing the Single Audit threshold may decrease the requirement of some local governments to procure audit services; however, the state agencies may have to off-set this with an increase in staffing to perform more site visits to ensure maintain proper subrecipient monitoring.
As described below, we fully support the reforms to audits described in Section A. Our comments on reforms to certain areas with the cost principles are provided below.

2. Which of these reform ideas would be the most or least valuable to you or your organization?

Comment
Due to lack of information on the details of the replacement system, we feel the reform idea that currently has the least value to us is the suggestion that the CFDA system be scrapped in favor of a new system – the CFFA. Unless OMB fixes the fundamental problems behind the current CFDA system (lack of CFDA numbers on awards, frequent CFDA number changes, difficulty in tracking the ebb and flow of CFDA numbers as they are eliminated or consolidated, etc.), we see the new CFFA being a change with little added value.
The most valuable, of course, is the increase in the minimum threshold and the tiered approach to determining which auditees require a Single Audit.
See our answer to A.1. above. Basically, the most valuable parts of the single audit reforms are those that incorporate our recommendations. The proposed reforms, in their current form, would likely have little value to us for the reasons stated in our comments above.
All of the other reform ideas discussed would not substantially reduce audit effort for a state the size of ours.
We believe that increasing the Single Audit threshold from $500,000 to $1,000,000 would be the most valuable to our organization because, as discussed in our response to Question #1, the reform could lead to potential statutory change in Colorado that would lead to a reduction in time spent reviewing local government audits. As also discussed in our response to Question #1, we believe that by potentially increasing sample sizes and lowering materiality under the Single Audit Act for those entities expending $3 million or more would severely limit the auditor's ability to use judgment in the determination of direct and material compliance requirements, and the use of risk assessment procedures to determine sample sizes. We believe this requirement could also increase our administrative burden by resulting in testing of overall compliance areas that do not have a direct and material effect on the grant program being tested. Therefore, this proposed reform would be the least valuable to our organization.
Most valuable – B2 regarding flat rate indirect cost recoveries rather than negotiated rates; B-3 regarding alternatives to time and effort reporting; and B-

Comment
15 allowing costs for improper payment recovery efforts. The least valuable is A-1(A, B, and C) regarding increasing the Single Audit threshold; and A-3 regarding increasing Single Audit recommendation follow up. Additional information on item B-2 Flat Rate Indirect Cost Recoveries Allowing flat rate indirect cost recoveries for small agencies with smaller grants would dramatically reduce administrative costs associated with the preparation, submission, and negotiation of rates because smaller agencies normally do not have personnel experienced in cost principles on their staff, and therefore must rely on outside assistance. This reform would be ideal for the smaller grants that allow for indirect cost recovery, but for which it is not cost effective to hire an experienced person or consultant to ensure recovery of the small dollar amount. Some states, including ours, have developed internal thresholds of $250,000 for the grants, above which then agencies must develop an indirect cost rate proposal. It would not be cost effective to spend more to prepare rates than the amount of the recovery. For example, currently A-21 allows an 8% flat recovery on education grants, which effectively eliminates the need to prepare indirect cost rate proposal at the community colleges, since most community colleges have federal grants in form of the financial aid and do not have large research programs. This percentage no longer adequately covers associated administrative costs; therefore, the rate should be examined periodically and revised accordingly.
Least valuable - Entities that expend less than $1 million in Federal awards would not be required to conduct a Single Audit Somewhat valuable - Entities that expend between $1 million and $3 million in Federal awards would be required to undergo a more focused version of the Single Audit. Most valuable - Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement for entities that expend more than $3 million in Federal awards
Reform A.2. Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement would be most valuable for focusing the audit on areas of higher risk, assuming that compliance requirements are streamlined and not merely regrouped under a universal compliance requirement or as Special Tests and Provisions. However, this reform may not be of significant benefit in relieving administrative burden given the proposed increases in testing, larger sample sizes, or lower levels of materiality for emphasized compliance requirements. Combining cost principles would be beneficial for improving clarity and eliminating confusion.
Most - Raising the minimum threshold to $1,000,000 and reducing applicable compliance requirements would be the most valuable reforms.
Streamlining the universal compliance requirements in the Circular A-133 Compliance Supplement has potential for being quite valuable. We agree that certain compliance requirements are more likely to identify improper payments, waste, fraud and abuse; specifically, allowable/unallowable costs, eligibility and subrecipient monitoring. We do have a concern that the movement of compliance requirements from the “universal” category to the “no longer universal” category may not actually have an impact on overall audit procedures if auditors simply continue to audit these “no longer universal” requirements because they exist or are accustomed to testing these. We would recommend requiring auditors to document justification for testing additional “no longer universal” requirements that are not considered necessary to test by the Federal Government. On page 19 of the proposal, “increased testing, larger sample sizes, or lower levels of materiality” and “other compliance requirements could either be made optional for testing (depending on the material effect of that requirement on the program) or could have smaller sample sizes and higher levels of materiality” are cited in relation to the streamlining of the compliance requirements. Sample sizes and materiality levels are historically determined by auditors when they begin single audit work. Is it OMB’s intention to begin setting materiality levels and acceptable sample sizes?

Comment
Single audits of entities which expend more than $3 million in Federal Awards addresses optional for testing under the caption "Streamlining the universal compliance requirements." Our immediate question is -- who makes this optional for testing? Certain testing is optional now (i.e., suggested audit procedures). The auditor, when considering appropriate tests to perform, currently focuses upon the direct and material effect on compliance requirements. Thus, we are uncertain on the impact (if any) this might have, or how much this could potentially change things on a go forward basis. If it is optional testing then the questions might become: 1) why do it, and 2) are we going to be paid for it?
Same as question 1 above.
As an audit organization, focused audit efforts would be beneficial and may allow for more efficient audits. However, it is unclear whether the proposed changes for recipients with federal expenditures in excess of $3 million would experience an increase or a reduction in the extent of audit effort overall. A flat indirect cost rate would likely reduce audit costs.
Increasing the audit threshold would be most valuable. The Reforms to Administrative Requirements is least valuable to existing audit practice.
The tiered single audit threshold increase would be the most immediate, significant benefit to us. However, all of OMB's proposed reform changes add value to single audit efficiency and usefulness.
• Raising the threshold would be the least valuable (per social services agency). • Using a flat rate instead of negotiated rates would be most beneficial to small and medium sized agencies. It takes a considerable amount of time for each agency to prepare and negotiate an indirect cost proposal. There could be potential draw backs to this approach. There are concerns that the flat rate would not be high enough to cover the overhead of an agency. If a range of rates was offered or if another way to ensure costs were covered was presented, then this approach could potentially work. • Time and effort alternatives could have the potential of being very beneficial. The time spent on tracking time and effort could be greatly reduced.
OMB's proposed changes to single audit administration and proposed changes in indirect cost rate policies would be the most valuable.
As an independent state audit organization, the following reform ideas could potentially be of least value to our organization: • Reform idea #A.1.A: Entities that expend less than $1 million in Federal awards would not be required to conduct a Single Audit. - Rationale: Because we conduct our Single Audit at the statewide level, we do not anticipate that these lower thresholds would affect our audit resources. Note: our organization does not perform single audits at local governments, some of which may be affected by lower thresholds. • Reform idea #A.1.B: Entities between $1 million and $3 million in Federal awards would be required to undergo a more focused version of the Single Audit. - Rationale: Because we conduct our Single Audit at the statewide level, we do not anticipate that these lower thresholds would affect our audit resources. Note: our organization does not perform single audits at local governments, some of which may be affected by lower thresholds.
We have the same response to this question as we do for question number 1.
SECTION A Audit thresholds**.** We fully support the audit reform strategies described in Part 1 (A, B and C). For fiscal year 2010, we conducted 474 local government single audits. As shown below, we estimate that raising the single audit threshold to $1 million in Washington State, for example, will continue to afford the federal government with 98 percent coverage of their programs. If the threshold was $1 million, 94 of 474 audits (20%) would be below this

Comment
threshold; yet these represent only 2% of total expenditures. This means about 20% of our auditees would not undergo a single audit, yet 98% of the dollars are still covered under traditional single audits.

Local Government audit category	No. of Audits	Percent of audits	Federal Expenditures	Percent of Expenditures
Greater than $1M	380	80%	$ 3,280,661,142	98%
Less than $1M	94	20%	$ 68,273,585	2%
TOTALS	474	100%	$ 3,348,934,727	100%

Source: Federal Clearinghouse 1/25/2012

Compliance Supplement. We support the audit reform strategies described in Section A, Part 2. Limiting the compliance areas to only those most important to stakeholders will go far in meeting these reform objectives. Further, limiting the "Special Tests and Provisions" to one or two top priorities of each federal agency will help reduce audit costs and audit burden. Current examples of extensive special tests from the 2011 Compliance Supplement:

Student Financial Aid cluster – 13 special tests
HUD Housing Choice Vouchers (CFDA 14.871) – 9 special tests
Dept of ED Title I (CFDA 84.010) - 6 special tests
HHS TANF (CFDA 93.558) - 5 special tests
Highway construction (CFDA 20.205) – 6 special tests

Audit Follow-up. We fully support the audit reform strategies described in Section A, Part 3.

Reducing Burden on Pass-Through Entities and Subrecipients. We support this concept. However, the strategies as described in the OMB reform document require additional details as to the specific role and responsibilities each party will have under the reform before we can give further input.

3. Are there any of these reform ideas that you would prefer that OMB not implement?

Comment
a) We believe the focus should be to improve audit follow-up at the current threshold levels. We think OMB is headed in the wrong direction in raising the threshold to $3 million. We don't agree that raising the threshold is the mechanism that should be used for decreasing findings. Raising the threshold to $3 million will certainly decrease the number of findings – but this line of reasoning is just masking the problem. Findings will certainly decrease because single audits of high risk grantees have been dropped out of the pool of audits and findings. Any decrease in audit

Comment
findings in the first few years cannot be solely attributed to better follow up by federal agencies. b) Allowing federal agencies to select the second compliance requirement for each CFDA number. We prefer a list of predetermined (2, 3, 5, etc.) compliance requirements if the abbreviated audit is conducted on grantees between the $1 - $3 million level of expenditures.
Not at this time.
No. From the perspective of a state audit organization, we prefer that effective and efficient reforms, modified where recommended, be made to the Single Audit Act.
Rather than allowing federal agencies to "opt back in" the remaining "non-universal" requirements, we would recommend that OMB allow auditors to continue to exercise their professional judgment when planning and executing the OMB Circular A-133 audit, such as by allowing auditors to: • Determine and set materiality levels for the purpose of identifying direct and material compliance requirements. • Determining when audit findings should be reported within the existing parameters of OMB Circular A-133. (We have provided some ideas under question #4 to reduce audit effort.)
We are comfortable with the proposed change to the Single Audit threshold from $500,000 to $1,000,000 and the revised compliance requirement selection process for entities expending between $1,000,000 and $3,000,000. We would prefer that OMB not implement the proposed Single Audit reforms for those entities expending over $3,000,000 in federal awards.
We believe OMB should not establish mandatory flat indirect cost rates, but rather should leave it up to the receiving agencies' discretion to accept the flat rate or prepare the rate proposal. If the flat indirect cost rate choice is implemented, administrative burden may exceed grants allowance; therefore, increasing the administrative burden on a state's general fund and/or cash funds by requiring increases to cash fees charged to users. The concept of mandating a flat rate and/or a discounted rate only shifts costs to the other funding sources within grantee violating 'fair and equitable' concept in A-21, A-87 and A-122.
No
Reform A.5. Reducing burdens on pass-through entities and subrecipients from audit follow-up provides that Federal agencies would resolve financial and internal control issues for entities that receive a majority of Federal funds through direct grants from Federal agencies, but pass-through entities would have to monitor to ensure that the subrecipient complies with the audit resolution as it applies to subgrants made by the primary grantee. We believe that this could be difficult for the pass-through entity to interpret the appropriate application of the audit resolution. Additionally, it may often be unclear which findings are financial or internal control findings and which findings pertain to program activity. For example, would findings involving questioned costs be financial findings, program findings, or both?
No
We believe the pre-award requirement would place a significant burden on recipients of federal awards. The proposal discusses the pre-award from the Federal to State (or other direct recipient) level. We assume this requirement would then also be passed on to the direct recipient when evaluating potential subrecipients. This would require significant additional efforts before awarding contracts to subrecipients, potentially even performing on-site reviews of the applicants before awarding the grants.
This is something we are still giving thought to.
OMB should consider reducing the amount of information required in the Single Audit report as well as being required to be input in the data collection form. The input of information in the Data Collection Form requires a considerable amount of time.
In fiscal year 2010, our state subgranted out approximately 13% of total awards expended. Increasing the threshold to $5 million would likely result in a large percent of the entities subgranted to no longer receive a single audit. For example, the state subgrants to school districts, cities, and counties.

Comment
Many of these entities would not receive over $5 million in federal funds. We believe the threshold should stay the same or increase to no more than $1 million.
Section II.C.2 of the Proposed Rules provides that "This refocusing of the Single Audit is intended to allow agencies to concentrate their audit resolution and oversight resources on the requirements most essential to managing waste, fraud, and abuse and reducing improper payments. This could result in a more focused audit that produces the findings needed to ensure accountability, while relieving the burden of audit work on issues that are secondary to the integrity of funds. Agencies could add back specific requirements under program specific tests and provisions where necessary. This would limit the types of compliance information that Federal agencies routinely receive from the Single Audit process." Our concern is that, although the universal requirements may be streamlined, the eliminated requirements will merely be shifted by the Federal agencies to the Special Tests and Provisions section for each program.
We support each of the proposed reforms.
No. All of the OMB recommendations have the potential of reducing burden and reducing cost to States and Federal agencies.
No.
Due to the lack of detail released in the register on how the federal government plans to implement these reform ideas, we are unable to determine which one(s) OMB should not implement.
As noted above, reforms to pass-through and federal agency follow up to findings will need additional clarification.

4. Are there any reform ideas, beyond those included in this notice, that OMB should consider as a way to relieve administrative burden?

Comment
We would still prefer the $5 million minimum threshold before a single audit is required. While we understand the importance of monitoring federal spending dollars, requiring audit procedures for all but 1% of federal expenditures seems inconsistent with audit procedures designed to provide "reasonable assurance" of compliance. The burden to the states to oversee the process is enormous without much realizable cost benefit.
We have no additional comments in this area.
We offer the following suggestions to reduce the administrative burden for auditors: • When determining major programs for large state recipients (such as states with federal expenditures in excess of $50 billion), allow the auditor to use professional judgment to select only enough high-risk Type A or B programs as "major programs" that is necessary to meet the 50% coverage rule specified under OMB Circular A-133, section 520(f). Although the auditor would potentially make decisions about which high-risk Type A programs not to audit, OMB may also consider prioritizing federal programs that historically have been high-dollar major programs for the states, which the auditor could consider when finalizing his or her list of major programs. • OMB does not currently require that the Schedule of Expenditures of Federal Awards (SEFA) provide information by subrecipient. Our state does not prepare its SEFA this way since certain federal programs may have over 1,000 subrecipients. The time and effort for the state to compile this level of detail, and the cost for us to audit it, will be significant. If the federal government truly wants this information, then 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

Comment
data under the American Recovery and Reinvestment Act (ARRA). • The federal government should issue management decisions on audit findings in a timely manner. Auditors can save time and effort by avoiding testing and follow-up on the prior year's findings if the federal agency "overrules the auditor" and concludes that the recipient's actions were appropriate. • The federal government should reconsider whether $10,000 in known questioned costs is still an adequate threshold for determining when to report an audit finding. In large states, many major programs are hundreds of millions of dollars and this reporting threshold seems inappropriate given the typical program size. OMB may want to consider establishing a reporting materiality level that is based on the recipient's total spending under the major program.
We believe that OMB should consider reducing the number of compliance requirements overall to those that are most significant, and to continue to allow auditor judgment in determining compliance requirements that are direct and material to the major program being audited.
We believe the indirect cost proposals are disproportionately focused on institutions of higher education, and we believe the following recommendation should be taken in consideration as part of reforming the cost principles. 1. Synchronize Cost Principles with GAAP - OMB should consider synchronizing cost principle with GAAP standards because several areas in the cost principles currently conflicts with GAAP. For example, Cost Principles, 2 CFR, Part 225 currently disallows interest with the exceptions of interest incurred to acquire or construct three types of assets: land, buildings or equipment. Under GAAP, software development projects are intangible assets, but they are not included in the three "allowable" types of assets in the regulation. Federal agencies have disallowed financing costs (including interest) related to software development based on their interpretation of 2 CFR Part 225 guidance. GASB Statement No.51 has been effective since June 2009 and requires capitalization and amortization of software development projects as capital assets. Given this guidance promulgated by GASB, cost principles are now outdated and contradictory to generally accepted accounting principles for governments. The cost principles should be revised to resolve this inconsistency. Updating cost principles to be consistent with current accounting guidance will result in increased efficiency; thereby, reducing the time required for plan and rate negotiations and resolution of the disagreements. 2. Shared Services – State governments, in partnership with local governments, deliver and support a host of federally funded programs that enhance the quality of life for our citizens. A novel approach to provide effective and efficient services to State and local programs by combining and/or sharing resources has become popular in today's tough economical environment to provide effective and efficient services. Cost principles currently do not allow such arrangements, and they should be reformed to allow shared services and other flexible approaches to providing efficient and effective services. This approach would result in savings to federal programs because full utilization of existing excess capacity would allow for distribution of cost to more functions – thereby reducing costs allocated to the federal government. 3. Statewide Cost Allocation Plan – If a longer term is approved for negotiated rates for Indirect Cost Rate Proposals (ICRPs) there is no reason to continue preparing the Statewide Cost Allocation Plan (SWCAP) annually. The primary purpose of the annual SWCAP is to distribute central

Comment
services overhead costs to user agencies so those user agencies can include statewide overhead costs in the calculation of their ICRP rates. If ICRP rates are in effect for four years at the grantee level then grantee agencies will not prepare an ICRP annually. As a result, annual preparation of the SWCAP also becomes unnecessary. OMB should consider synchronizing ICRP and SWCAP preparation by eliminating the annual preparation requirement for the SWCAP in the cost principle. If the SWCAP preparation and negotiation was synchronized with a four year ICRP, it would result in significant administrative savings at both the federal and the state level. In our experience, it currently takes several months of preparation time at the state level, and each federal negotiator reserves considerable time to review and finalize negotiation of the SWCAP. States could be placed on staggered schedules to smooth out the workload in the federal Division of Cost Allocation. 4. Public Assistance Cost Allocation Plan (PACAP) - OMB should consider other areas while consolidating and reforming cost principles. The areas of Internal Service Funds and Public Assistance Cost Allocation Plan should be examined along with the rate proposal. If OMB considers flat rates and longer terms for negotiated rates, then the requirements for public assistance cost allocation plans should also be aligned with the extended SWCAP schedule discussed in 3 above. 5. Cognizant Agency Designation – Based on our experience, for certain federal grants, our grantee agencies have a difficult time identifying the cognizant federal agency and convincing them to review and negotiate the indirect cost proposals. When this occurs, considerable administrative expenses are incurred at the State agency level without finalizing a rate negotiation. Administrative burden and frustration would be reduced if the federal grantor agency was required to provide notification to the grantee of the cognizant federal agency and the relevant contact information. As an example, the federal Department of Housing and Urban Development (HUD) historically provides the majority of grants to the State for distribution to our local governments. However recently the federal Department of Homeland Security has provided the majority of grants, and as a result HUD was unwilling to review the necessary indirect cost proposal and Homeland Security could not review due to a lack of resources. OMB should designate a primary grant distributing federal agency responsible for reviewing and negotiating proposals. 6. Mediation services – OMB should create a function separate from the Division of Cost Allocation for mediation in the event of disagreements over the interpretation of cost principles. The function would facilitate communications between OMB, the grantor, and the grantee to clear any misinterpretations and to educate all parties in advance of appeals to the board. Such a function would effectively reduce administrative burden.
It is our experience that “Reporting” is one of the compliance requirement categories containing a significant number of audit findings. For entities that expend between $1 million and $3 million in Federal awards, we recommend that OMB consider making “Reporting” a required compliance category. If “Reporting” is not tested by the auditor, there appears to be a great likelihood that required Federal reports would contain erroneous data and future funding decisions and other analysis could result in faulty decision making by the Federal agencies. Testing “Reporting” requirements do not generally require much audit effort, but the benefits of the results of the testing can serve as a preventative control against future faulty funding decisions. In the event an entity, in year 1, expends between $1 million and $3 million in federal awards and then, in year 2, expends in excess of $3 million in Federal awards, we recommend the following:

Comment
For those programs audited in year 1 in which only two compliance requirement categories were tested, we recommend that OMB allow those programs to have been considered as having been "audited as a major program in at least one of the two most recent audit periods" for purposes of determining major programs (Section .520, OMB Circular A-133) in year 2. To further promote further cost savings through reduction in audit hours, we recommend the following: In the event a major program in year 1 has an audit finding in only one compliance requirement category, that under the present guidance contained in OMB Circular A-133 would require the program to be re-audited in year 2, assuming there are no other risk factors present that would cause the program to be considered high risk, we recommend that the audit of this program in year 2 be limited to only the compliance requirement category that resulted in the finding. Further, if this idea were to be implemented, we would also recommend that this program be considered as having been "audited as a major program in at least one of the two most recent audit periods" for purposes of determining major programs (Section .520, OMB Circular A-133) as a result of the work performed in year 2. Page 19 of the "Grant Reform" document includes a discussion of targeting a subset of compliance requirement categories for increased testing, while other compliance requirement categories would either be made optional or subject to decreased testing. We believe this idea could be more effective if the level of work performed for each applicable compliance requirement category was based on risk assessments conducted by the auditor, rather than these categories being pre-determined. We believe this approach would greater target risks in each major program selected for testing and result in an increase in the stewardship of Federal funds. In some instances compliance requirements such as cash management, subrecipient monitoring and reporting essentially have the same controls entity-wide over multiple programs; even programs not being tested as major. If significant deficiencies or material weaknesses are reported for these compliance requirements, the current guidance (Section .510 (a), OMB Circular A-133) requires us to fully audit each of the programs in the subsequent year regardless of whether or not there were other issues or problems found within any of the other compliance requirements. There should be some allowance given for deficiencies noted entity-wide across programs in this manner and still allow for a low risk assessment on a particular program in the subsequent year, provided there are no other risk factors present that would cause the program to be considered high risk. The category in which the deficiency was identified would still be tested in the subsequent year because of the same entity-wide controls crossing multiple programs. Current audit guidance, (Section .530 (a), OMB Circular A-133) related to "Criteria for a low-risk auditee" should be amended to specifically allow the cognizant or oversight agency for audit to consider a non-Federal entity to be approved as a low-risk auditee in the event their most recent audit report was completed after the nine-month deadline in situations where the late completion was determined to be beyond the control of the non-Federal entity, provided there are no other risk factors present. The Single Audit Act Amendments of 1996 (Section 7502 (h)(2)(B)) currently provides that longer time frames may be authorized by the Federal agency when the 9-month time frame would place an undue burden on the non-Federal entity. It seems equally reasonable that an audit completed after the 9-month time frame due to circumstances beyond their control would not cause an entity to be denied a low-risk auditee status. Such an amendment would increase the pool of low-risk auditees and result in a cost savings due to a reduction in audit hours.
We believe that the Single Audit has become burdensome and costly to administer for many entities that expend over $10 billion in Federal funds. As shown in the following table, for our state, the selection of major programs required by OMB Circular A-133 results in the audit of a large number of major programs that comprise a very high percentage of Federally-funded expenditures (i.e., 97.65 percent in fiscal year 2010. For comparison

Comment

purposes, the Table also shows the number of programs required to provide 90 and 95 percent coverage of Federally-funded expenditures.

State of Florida Fiscal Year	2010	2011
Total Federal Expenditures Reported on the SEFA	$40,441,945,806	$41,094,883,152
Type A Threshold	$60,662,918	$61,642,324
Number of Major Programs	39	36 (a)
Total Major Program Expenditures as a Percentage of Total Federal Expenditures	97.65 Percent	93.62 Percent
Number of Major Programs Comprising 90 Percent of Total Federal Expenditures	15 Programs (90.68 Percent of Expenditures)	20 Programs (90.27 Percent of Expenditures)
Additional Number of Major Programs to attain coverage of 95 Percent of Total Federal Expenditures	10 Programs (4.55 Percent of Expenditures)	
Additional Number of Major Programs to meet current requirements	14 Programs (2.44 Percent of Expenditures)	16 Programs (3.35 Percent of Expenditures)

(a) Pursuant to the Single Audit Internal Control Project – ARRA Programs – Phase 2, the State was exempt from OMB Circular A-133, Section ___.520(e)(2), resulting in the exemption of three major programs.

We believe that certain revisions of audit requirements for larger entities, i.e., those with Federal program expenditures greater than $10 billion, would also result in administrative relief and efficiencies. We suggest that the Type A Program Threshold be increased for larger entities with Federal expenditures greater than $20 billion, thereby decreasing the number of programs audited as major; thus allowing audit resources to be applied in a more meaningful manner to address areas of higher risk. An alternative to increasing the Type A Program Threshold would be to implement a more focused audit (two compliance requirements) of major programs once a certain level of audit coverage has been attained (i.e., 90 percent of expenditures).

No

OMB should consider the level of review performed by Federal auditors of Financial Reporting when considering the compliance requirements to be

Comment
tested by the auditors of direct recipients. We believe there is duplication of efforts with the Reporting requirement, specifically with the Medicaid CMS-64 report. This quarterly report is audited in great detail by the Federal auditors; in addition our state auditors spend a significant amount of time auditing this report. This seems like duplicative effort and that the requirement for independent auditors to test this report and other similar reports could be removed from the compliance requirements expected to be reviewed through the Single Audit.
One area that that comes to mind is the $10,000 threshold for reporting known or likely questioned costs. Maybe the federal government should consider increasing this threshold. Further, we believe it is important to keep the terms "known and likely" together. The "likely" questioned costs evolve from the extrapolation process (i.e., projecting to the universe). On the Statewide Single Audit it does not take a very big error(s) in a sample to get a likely questioned cost to exceed $10,000. Developing some sort of sliding scale based upon: a) size of the program, b) amount of total expenditures, and c) a cap at the top might be worth exploring. Perhaps modifying the criteria for reporting a finding would reduce the administrative burden if this results in decreasing the number of issues that must be reported. It appears that the Federal Government understands the current concerns about the timeliness of the audit resolution process and intends to focus attention on this problem. If OMB addresses the current criteria for reporting a finding and modifications are made maybe two things could be accomplished: 1) reduction in the number of findings incorporated into the audit report, and 2) a corresponding reduction on the number of matters that would need to be addressed in the audit resolution process.
It is unclear whether the extent of compliance requirements imposed on grant recipients would be reduced. Reducing the volume of administrative requirements rather than focusing audit effort on only a few of those requirements would relieve recipients of the administrative burden they currently experience. Also, the elimination of a data collection form would save our office considerable time.
We believe they should repeal the CMIA. This act is a good example of the costs outweighing the benefits. The Common Rule already includes a cash management requirement. We think that should remain, but CMIA should be repealed. If this is continued, the federal government should have to pay when the CMIA agreements shows a federal amount owed to the state. For example, FHWA has stated they have 30 days to pay their bills and, as a result do not pay their federal share of the CMIA liability calculation. The act as currently written also only allows the state to charge only a very small portion of the cost of the act as related operating costs. If continued, all of the related costs should be allowable. OMB should consider clarifying the rules to give pass-through entities a clearer picture on what is expected and how long they have to track equipment purchased by/for sub-recipients, especially if the equipment's FMV falls below the $5,000 threshold. Is it really necessary to continue tracking the equipment at this point or is it their intent to track the asset until it is fully disposed of? Also the guidance should clearly define an allowable use of the related proceeds.
The $10,000 threshold for reporting known or likely questioned costs should be increased. Raising the threshold for a Type A program at all levels is long overdue, considering that entities must meet a percentage-of-coverage-rule which ensures that there is adequate audit coverage of federal programs.
The OMB should consider increasing the questioned cost threshold or setting it as a percentage of total major program expenditures. It is inefficient for Federal awarding and pass-through agencies to devote time rendering ***management decisions*** on small dollar findings (unless involving fraud or clearly improper payments). We suspect the low current threshold delays the issuance of management decisions, and becomes a bottleneck in the Single Audit process. Instead, consider using a percentage of total major program expenditures to measure questioned costs. (Reducing the current 14 categories of compliance subject to audit would have the collateral benefit of reducing the administrative burden of following up on questioned costs related to the omitted requirements, as well as the direct benefit of reducing single audit costs.)

Comment
OMB should also consider increasing the thresholds used to identify major programs.
N/A
States and local governments should be allowed to obtain full electronic versions of their subgrantee Single Audit reports through the Federal Audit Clearinghouse. These subgrantees should not have to submit additional Single Audit reports to their state and local oversight agencies as well.
OMB should consider increasing the equipment threshold from $5,000 in Circular A-87. If the $5,000 threshold for equipment is increased, this would decrease the number of capital expenditures requiring prior federal agency approval for charge as a direct cost to federal programs and would reduce the number of items required to be deducted through depreciation. This would reduce the administrative burden on both Federal agencies and recipients. We also would recommend that OMB consider seeking out ways to reduce redundancy in Federal reporting requirements as a way to further standardize Federal reporting and eliminate duplication of duties of Federal grantors and grant fund recipients.
OMB should consider making the full content of the Federal Audit Clearinghouse (FAC) available to pass-through entities to relieve 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 which provides them federal funds. With the simple act of making the full content of the FAC available on the web, OMB could reduce the administrative burden for thousands of grantees.
In terms of reform to A-133 single audits, we fully support an increase in the questioned cost reporting threshold. We recommend known and likely questioned costs be reported in a finding when they exceed the larger of $10,000 (or a higher amount) or a specified percentage of the total program expenditures, such as 1%. Below are examples of using $10,000 and a 1% program threshold: • School District; Special Education; total program expenditures = $200,000. Report questioned costs if they exceed $10,000 for a compliance requirement (the greater of $10,000 or 1% of program costs, $2,000 in this example). • County Government; Highway Construction; total program expenditures = $2,000,000. Report questioned costs if they exceed $20,000 for a compliance requirement (the greater of $10,000 or 1% of program costs, $20,000 in this example). • State Agency; Community Development Block Grant-CFDA 14.228; total program expenditures = $20,000,000. Report questioned costs if they exceed $200,000 for a compliance requirement (the greater of $10,000 or 1% of program costs, $200,000 in this example).

Single Audits

1. In general terms, how important are Single Audits to your entity or to entities you audit for subrecipient monitoring?

Comment
Very important tool for our state agencies.
Single audits are important in the sense that there is reasonable assurance that federal monies are being utilized according to the intent of the awards. Uncovering noncompliance is always important to taxpayers as they have vested interest in the wise use of their tax dollars. However, most taxpayers would not understand or embrace – if given the total picture – that states are required to oversee and report on all but 1% of those expenditures.
Single Audits represent a majority of our audit responsibilities as the state's audit organization. As such we know that the results of our work are an

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important part of our auditees' (i.e., the state, its universities, counties, and community college districts) efforts to monitor subrecipients. Therefore, we believe single audits are very important to us and the entities we audit.
The Single Audit is important.
Single Audits are very important to the entities that we audit.
The Office of the State Controller does not have subrecipients directly; however, our state agencies have a very large number of subrecipients, and our understanding is that they are very dependent on the subrecipient's single audit for monitoring purposes.
VeryiImportant. The entities we audit rely heavily on the Single Audits as a means of monitoring their subrecipients. Shrinking budgets in the past few years have resulted in reductions in resources at the non-Federal entities that were previously used to monitor subrecipients.
Single Audits are key components in subrecipient monitoring procedures.
From an auditor perspective, we like the risk based approach.
Single Audits are very important to our state. Departments rely heavily on the audit reports because they address the compliance requirements and internal controls at the subrecipient level. More on-site monitoring of subrecipients would be necessary if the Single Audit threshold increased significantly causing an increase in the administrative cost of programs with subrecipients.
Very important. The single audits are important to the agencies we audit. The audits are one important component of their overall monitoring process. In many cases they may be the most relied upon aspect in their monitoring and oversight process.
We believe Single Audits are very important for the entities we audit to perform effective monitoring of subrecipients.
Single Audits are a primary way in which subrecipients are monitored. They are very important to a state the size of Montana where traveling to each subrecipient location is timely and costly. If the monitoring requirements remain the same, reducing the number of available Single Audits will only result in an increased burden to the primary recipient.
Our auditees' use the subrecipients' Single Audits as one tool in their subrecipient monitoring activities. Most of our auditees have established monitoring procedures, though we continue to identify deficiencies in the monitoring process.
We have noted that pass-through entities rely primarily on internal monitoring procedures, and don't utilize subrecipient audits as an important monitoring tool.
Raising the dollar threshold will reduce the audits pass-through entities use as a primary subrecipient monitoring tool. Pass-through entities may view the reduction in audits as an "unfunded mandate" to incur additional monitoring costs. During a March 15 nationwide National Association of State Auditors, Controllers and Treasurers phone call regarding this issue, two large "monitors" (e.g., state agency chiefs) disagreed with each other regarding the required extent of monitoring. We believe the cost of oversight (whether via audit or other monitoring) ought to not exceed its benefit. Therefore, OMB might amend and clarify **subrecipient monitoring** requirements, to clearly allow "monitors" to base the extent of monitoring on risk assessments, minimum dollar amounts or other cost-benefit criteria.
Single audits are very important. Many of our agencies value external review and feedback of procedures and practices.
Prior to Pennsylvania state requirements that arose out of the American Recovery and Reinvestment Act, single audits were the primary source of fiscal monitoring that state agencies utilized to oversee their subgrantees. Subsequent to ARRA, on-site fiscal monitoring procedures have been implemented. However, the single audit remains a large portion of subrecipient monitoring.
Single Audits are very important to Tennessee State Government and the Division of Accounts supports the proposed reforms. However, the Division of Accounts' role is one of information gathering and coordinating agency responses and resolution of audit findings. Since we are not in a position to

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comment on the proposed reforms to Single Audits, we will defer to the Tennessee Comptroller of the Treasury, Division of State Audit for comments except for the comment below on question number four.
As an independent state audit organization, it is our experience that state pass-through entities sometimes have challenges with subrecipient monitoring. Therefore, any decreased coverage from the Single Audit process has the potential of compounding existing issues. Increased federal guidance that clearly defines subrecipient monitoring expectations for pass-through entities may help address these challenges.
In general, we agree with the goal of reforming the single audit process to focus on risk. In particular, we agree that changes should be made to the single audit threshold and the compliance requirements should be reduced.
For subrecipient monitoring, Single Audits are very important to the state agencies we audit. Single Audits provide pass-throughs with an annual assessment of each sub-grantee's control environment. Additionally, it eliminates the need for sub-grantees to receive multiple site visits from different granting agencies to complete an assessment of their control environment. Without Single Audits, pass-through agencies would have to complete more visits and subrecipients would have to accommodate and respond to multiple review teams, which would increase the administrative burden for pass-throughs and subrecipients.

2. In general terms, what impacts would the following changes to the Single Audit framework have on your organization in administrative burden and in ability to provide oversight to subrecipients?

- **a. Increasing the Single Audit threshold to $1 million?**
- **b. Requiring a more focused Single Audit (with only two compliance requirements) for any entity expending between $1 million and $3 million?**
- **c. Requiring full Single Audits for any entity expending more than $3 million?**

Comment
In evaluating the last two years of federal single audits submitted by our subrecipients, we find that : • Federal expenditures of less than $1,000,000 account for 25% of all federal single audits received by the State of Alaska, with a median expenditure amount on the SEFA of $720,109. However, these grantees are disproportionally represented in several "red flag" categories: o 32% of all "high risk" federal single audits received by the State. o 44% of all federal single audits with going concern notes o 52% of all federal single audits received that had a qualified, adverse or disclaimer opinion. o 36.6% of audits in this range were submitted after the required nine month period. • Federal expenditures between $1,000,000 and $3,000,000 accounted for 37.3% of all federal single audits received, with a median expenditure amount on the SEFA of $1,759,917. This group is also disproportionally represented in several "red flag" categories: o 37.6% of all "high risk" federal single audits received by the State. o 55.6% of all federal single audits with a going concern note. o 32% of all federal single audit received that had a qualified, adverse or disclaimer opinion.

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- Federal expenditures of $3,000,000 or more accounted for 37.7% of all federal single audits received by the State, with a median expenditure amount on the SEFA of $7,134,753.
    - This group had the best record for submitting their audits within the nine month timeframe, had the lowest percentage of qualified, adverse or disclaimer opinions and had no audits with a going concern note

a. Increasing the single audit threshold to $1 million would allow an entire pool of high risk grantees to bypass one of the best tools we have to monitor their internal controls, financial stability, management and stewardship of federal funds. This group of grantees is -- of all the groups -- most at risk for improper payments, fraud, waste and abuse.
b. Given the performance issues, as described above for this group, the State believes OMB is going in the wrong direction by reducing the compliance requirements to just two. Such a reduction, we believe, will do nothing to reduce the risk of improper payments, fraud, waste and abuse for this pool of grantees.

a. Provides 20% reduction in single audit reporting; oversight and assistance to smaller subrecipients currently provided would likewise be reduced and provide ample time to devote attention to those auditees receiving more substantial amounts of federal dollars.
b. This focused requirement would include about 50% of current federal audits. The reduction to two compliance requirements would still provide critical information in those areas of higher risk for the auditee. We would still realize cost-benefit in the reduction of human resource commitments and other administrative costs.
c. This requirement would provide single audits of 25% of our auditees receiving federal dollars. The reduction/combination of compliance requirements would eliminate some of the burden of redundant audit work. Noticeable benefits of change to the compliance requirements would include better management of time with identifiable higher risk areas and targeting more important areas of potential noncompliance.

a. Currently, we have no auditees (the state including its universities, counties, and community college districts) who receive between $500,000 and $1 million, so we are not directly affected by this reform idea. However, one of our divisions monitors the single audits of school districts who are audited by independent CPA firms. The estimated demographics of Arizona School Districts obtaining single audits, financial statement-only audits, and no audit requirements—currently and with a $1 million dollar threshold for obtaining a single audit are as follows.

Arizona School Districts (239 total)			
	Single Audit	**F/S-only**	**No audit**
Currently	142	75	22
Proposed $1M Floor	114	103	22

In the case of the districts receiving single audits or financial statement-only audits, auditors also complete a uniform accounting and reporting compliance questionnaire that our office uses to monitor general accounting and compliance matters and related internal controls. Therefore this reform idea would not negatively impact our monitoring because of the use of our monitoring questionnaire, which has been more effective in meeting our objectives than does the single audit report results.

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b. This reform idea would affect 1 of the 25 full single audits we do each year of the state including its universities, counties, and community college districts). However, if this reform idea was modified to be a $5 million top range, 2 additional single audits would be affected. We believe this would be a positive impact for the reasons stated in our comments section. Essentially, we would be able to perform more focused tests on the two most important compliance requirements for each major program of 3 of our 25 single audits. Of the remaining 114 school district single audits (see our answer to 2.b. above), the following table describes the resulting estimated impact:
<table>
<tr><th colspan="3">Arizona School Districts (114 expending more than $1M federal awards)</th></tr>
<tr><th></th><th>Full S/A</th><th>Reduced S/A</th></tr>
<tr><td>Currently</td><td>142</td><td>0</td></tr>
<tr><td>Proposed $1M - $3M</td><td>77</td><td>37</td></tr>
</table>
c. If the reform ideas in this area are modified as we have recommended, the remaining 22 single audits we perform would be positively impacted for the reasons stated in our comments above. Essentially, we would be focusing our audit work on the compliance requirements having the best focus on where improper payments can occur and expending our resources accordingly.
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a. No impact. California receives more than $120 billion in federal assistance.
b. No impact.
c. Changing the audit threshold to more than $3 million will not impact the statewide audit of California. However, our responses to questions A.1 and A.4 provide our perspectives on ways in which our audit effort can be reduced.
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a. As noted in our response to Question #2, the Colorado Legislature would likely amend the Local Government Law to increase the audit requirement threshold. With a higher threshold, fewer local governments would be required to submit an audit to our Local Government Division for review, which would reduce the administrative/oversight burden on both local government entities and the Colorado Office of the State Auditor.
b. This reform could streamline the Single Audit for local governments if the second compliance requirement were selected and communicated for each grant program through the Compliance Supplement no later than March of each year. In addition, the selection of this second compliance requirement should allow for auditor determination to ensure that the second compliance requirement that is selected is relevant for the grant that is being tested.
c. We do not anticipate this change to significantly impact the Single Audit performed at the statewide level, as long as the auditor would be allowed to retain the ability, through auditor judgment, to determine:
a. materiality levels, and
b. those compliance requirements that are direct and material to the entity for the program being audited.
</td></tr>
<tr><td>
a. Increasing the Single Audit threshold to $1 million? No beneficial impact would result because the state will never meet that threshold; however, we would lose the single audit as a tool for monitoring smaller subrecipients. On-site visits and other forms of monitoring do not provide the same level of assurance that is provide by the Single Audit opinions. In addition, pass through agencies often have difficulties in obtaining staffing resources to perform other forms of monitoring even when those resource are federal grant funded.
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Comment
b. Requiring a more focused Single Audit (with only two compliance requirements) for any entity expending between $1 million and $3 million? This approach cannot be assessed because the document did not specify whether OMB would be able require federal agencies to accept the reduced audit coverage as adequate for grant compliance and monitoring. If as expected, the federal agencies require the historical audit coverage or more, this change will provide no benefit to pass through entities such as states. c. Requiring full Single Audits for any entity expending more than $3 million? This proposal is effectively no change for subrecipient entities over $3 million. As a result it has neither a positive nor negative impact on the State.
N/A. Responses to this question are applicable to non-Federal entities.
We perform Single Audits on only a few entities with Federal expenditures of less than $3 million. Requiring a more focused Single Audit of entities expending between $1 million and $3 million appears to appropriately streamline the audit to focus on allowable activities and costs. The timing of the selection of the second compliance requirement by the Federal awarding agency is critical for the timely performance of the audit procedures.
a. We would like this. The Single Audit is a burden to smaller entities. However, as discussed later, there will be a need for more monitoring by the prime recipient. b. This is a great idea, resulting in a more risk based audit. However, we do have questions about determining the limited compliance requirements. 1. When would these be determined? 2. How would these be communicated? 3. Would there be different requirements for different recipients (ie state versus city)? 4. Would we only look at financial statement controls for the classes of transactions or account balances related to the two compliance requirements? 5. What if all funds are passed through funds, who would determine the compliance requirements? How would this affect financial related to federal programs? 6. If activities allowed/unallowed is one of the compliance requirements, programs, would A-87 still need to be tested or would it be combined within this requirement? 7. Would the reports/level of assurance/opinion change? 8. What if there are multiple programs, would there be multiple requirements for each? 9. Would testing of the SEFA change with the threshold? c. We agree, this would allow us to spend more time on larger entities/programs.
a. We do not anticipate a significant impact if the threshold increases to $1 million. b. We do not anticipate a significant impact on our state as a result of the more focused Single Audit for entities expending between $1 million and $3 million. c. We do not anticipate a significant impact on our state as a result of the change in full Single Audits for entities expending more than $3 million.
a. We are an audit agency. Thus, increasing the threshold will not increase our burden and ability to provide oversight of subrecipients. Subrecipient monitoring is the responsibility of state agencies we audit. However, increasing the threshold could negatively impact the pass through entities' ability to provide oversight for those who receive less than $1 million in Federal funds which are granted to subrecipients. This threshold change is expected to significantly reduce the number of subrecipients required to have a single audit. In Illinois, our past Statewide Single Audits have

Comment
historically reflected numerous monitoring and oversight problems at the state agency level with regard to subrecipients. b. This middle ground approach as described in the white paper raises a number of questions. It will likely cover a significant number of subrecipients. The concept here is that once a major program determination has been made, auditors would review only two compliance requirements for those programs. First, allowable and unallowable costs would always be one of the required compliance requirements for those programs. **Second, federal agencies would have the discretion to select the second compliance requirement for each of their programs as they deem most appropriate**. (emphasis added) OMB would provide guidance to agencies that this second compliance requirement should be the one that, for the particular program, would best target the risk of improper payments, waste, fraud, and abuse. Some of our questions concerning the second compliance requirement follow: • How is this going to work? • How are the implementation issues going to be addressed? • Where is this going to be addressed (Compliance Supplement or the Catalog of Federal Domestic Assistance)? • How is the timing aspect of this going to work? • How are the auditors going to get this information? Will it be timely? • In summary, how will the logistics work? c. This would be similar to what is currently taking place now. However, the universal compliance requirements listed in the Circular A-I33 Compliance Supplement could be streamlined to focus on proper stewardship of Federal funds. The white paper states that a "subset of compliance requirements would be targeted for: 1) increased testing, 2) larger sample sizes, or 3) lower levels of materiality. Some of the questions that immediately come to mind include: • Historically, the Statements on Auditing Standards have addressed materiality. Is this now going to be focused upon and addressed through the OMB Circular and/or the Compliance Supplement? • The Compliance Supplement has historically placed emphasis on suggested audit procedures. (emphasis added) Is this concept changing? One of the items mentioned in the examples listed include "selection of subrecipients" which is currently not in the compliance requirements. Thus, we are interested in learning more about this and what this might entail. In addition, special tests and provisions are also listed as an example. The level of work here is unknown and Federal agencies could possibly use this avenue to bring back levels of testing they want or desire. Does the Federal Government plan to increase special testing requirements? It seems like special testing requirements outside the standard compliance requirements have been increasing over the years.
We are a state audit organization and the state will continue to require a full Single Audit each year due to the level of funding. We do contract with CPAs to conduct audits of local governments and this will impact the types of audits needed; however we don't see this as causing any reduction in our administrative process. Reduction of required Single Audits; however could result in increased subrecipient monitoring needed by pass-through entities, which could increase the administrative burden by those entities and has a potential for increased audit efforts and issues regarding subrecipient monitoring.
a. This could increase the extent of monitoring procedures for the primary recipients. b. As an audit organization, focused audit efforts would be beneficial and may allow for more efficient audits.

Comment
c. This would have no impact on our audit organization. The same amount of work will be required.
a. Our auditee has over $20 billion in expenditures so this would have no impact on our audit requirements. However, there may be a need for state agencies to increase monitoring of subrecipients receiving less than $1 million. b. Same as above, though having the two compliance requirements audited would likely not require increased monitoring of subrecipients in this tier. c. There would be no change for us.
a. This appears reasonable and, as noted above, because the subrecipient single audits are not utilized as an important monitoring tool, would not necessarily increase risk of fraud and abuse not being detected, as entities that do not expend large amounts of Federal funds frequently receive the majority of funding from pass-through agencies. We would like to see the threshold increased to at least $3 million. b. This could potentially lead to more efficient use of local government resources, although the threshold for the streamlined audits should be increased to entities expending up to $10 million. It is good that the "tiered approach" to audits, i.e., some Yellow Book Audits and some Single Audits, appears to have been discarded. The uncertainty related to the tiered approach could result in challenges for both auditees, who have to budget for audit services, and the auditor, who have planning and staffing requirements for the audit engagements. c. The threshold is too low to be beneficial to many of the local governments in our state who routinely expend between $3 and $10 million in any given year.
See our response to Question A.1. Reducing the overall number of single audits will: • Provide some cost relief to smaller local governments. o Our audit law permits biennial audits unless annual single audits are required. o Note: When auditing biennially, we audit both years, but the cost per year is less. • Free up audit organization resources, which have shrunk as the economy has contracted. Improve the timeliness of single audit submissions.
a. May require state agencies to perform more monitoring of sub-recipients. b. No additional monitoring but could reduce burden at the sub-recipient level. c. No change.
a. If the threshold were increased to $1 million, the amount of Pennsylvania's subrecipients requiring single audits would decrease from approximately 1,100 to 800. Larger subrecipients, which include counties and local education agencies, would still meet the new threshold. Related audit findings would likely receive resolution more timely. b. The new threshold creates a tier of subrecipients that would only receive minimal fiscal oversight. Current subrecipient monitoring focuses on programmatic procedures and results. Data analysis and self reporting of financial data would need to be implemented to make the best use of limited resources. However, this fiscal monitoring will likely need to be supplemented by internal auditors, subcontracted auditors, or new agency personnel with fiscal backgrounds performing site visits and/or audits. The funding to perform this additional oversight does not seem to be included in OBM's current proposal. c. There should be minimal impact on the oversight of subrecipients expending greater than $3 million, as they would continue under the current administrative process.
a. As an independent state audit organization, we do not anticipate that these lower thresholds would affect our audit resources because we conduct our Single Audit at the statewide level. However, a lower threshold may increase the administrative burden associated with increased subrecipient

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monitoring activities that may be required by some of our state pass-through entities. Note: our organization does not perform single audits at local governments, some of which may be affected by lower thresholds. b. As an independent state audit organization, we do not anticipate that these lower thresholds would affect our audit resources because we conduct our Single Audit at the statewide level. However, a lower threshold may increase the administrative burden associated with increased subrecipient monitoring activities that may be required by some of our state pass-through entities. c. As an independent state audit organization that conducts our Single Audit at the statewide level, we do not anticipate the lower threshold would impact our audit effort. We expect that we will continue to perform audit procedures at state entities for all compliance areas determined to be direct and material.
Due to the lack of detail released in the register on how the federal government plans to implement these reform ideas, we are unable to thoroughly evaluate this change; however, we have concerns; which are: The passage dealing with this reform idea states "agencies would have the discretion to select the second compliance requirement for each of their programs as they deem most appropriate…" We assume that "agencies" in this sentence is referring only to federal agencies and not state agencies, which pass-through federal funds. If the federal agencies are allowed to select a second compliance requirement, can pass-through entities select additional requirements as they deem most appropriate? If pass-through entities can select additional requirements for their subrecipients, is audit of these additional compliances requirements an allowable expense? If pass-through entities cannot select additional compliance requirements or subsequent audit of them is not an allowable cost, will the pass-through be required to repay federal funds if the subrecipient does not comply with any requirements not covered by Allowable and Unallowable Costs and the one compliance requirement selected by the federal agency? For example, a federal agency selects Activities Allowed to go along with Allowable and Unallowable Costs and the state requires the local government to spend matching funds to meet federal requirements. How can the state be held accountable for local matching if the state (pass-through of federal funds) cannot require an audit of the subrecipient to ensure that the matching requirement was fulfilled?

3. Should the Single Audit threshold(s) be increased, and if so, to what extent?

Comment
No, the state does not support increasing the federal single audit threshold level to $3,000,000. We support a modest increase of the threshold to $750,000, a reduction of some compliance requirements for grantees with consecutive years being deemed low risk – with high risk grantees subject to the current, full range of compliance requirements. We would encourage a reduction in the timeframe for submitting single audits to seven months in an effort for more meaningful and timely information. We would also suggest consideration of a national list or register of grantees who fail to submit their federal single audit to the Federal Audit Clearinghouse within the nine month period. Currently, the public can see which grantees have submitted an audit to the Federal Audit Clearinghouse, but there is no way of know the pool of grantees who should have submitted an audit, but failed to do so. This register could be similar to the excluded parties list in that all agencies would provide information and the public could have a transparent site for obtaining this information.

Comment
The $5 million threshold, covering all but 4% of federal expenditures nationwide, is the optimal amount OMB should adopt.
See our comments above.
We have no opinion. Instead, we would ask that you allow states like ours to audit major programs that encompass no more than 50 percent of all federal expenditures (per our response to question A.4).
It makes sense at the smaller government level to increase the threshold from $500,000 to $1 million.
The Single Audit threshold should not be increased. Small grants are normally associated with small entities, and although it is a financial burden, the Single Audit is often the only requirement that forces a small entity to honor its general governmental accountability requirements.
Yes – We believe that the Single Audit threshold should be increased, at a minimum, to $1 million. Consideration should be given to raising the threshold up to $5 million.
An increase in the Single Audit threshold to $1 million appears to be reasonable. We would suggest that a range of expenditures from $1 million to $5 million qualifying an entity for a more focused Single Audit (with only two compliance requirements) would be appropriate. (Please also see our response to question A.4.)
We like the $1 million, $1 to 3 million and over $3 million thresholds as proposed.
We agree with increasing the Single Audit threshold to $2 million or $3 million. If the threshold were much higher than this, it would seem the subrecipient monitoring expectations should be re-evaluated; reducing the expected level of monitoring of those subrecipients below the Single Audit threshold. For example, if the Federal Government is willing to significantly increase the Single Audit threshold, then it would seem the lower dollar-level subrecipients (not subject to Single Audit) wouldn't be as necessary to review because the Federal Government is willing to forgo Single Audits of these entities.
We believe the single audit threshold should be increased. We are comfortable with the increase to $1,000,000.
Proposed thresholds appear reasonable.
It is our opinion that the single audit threshold should be higher than the proposed $1 million. We would suggest that the threshold for requiring a single audit be raised to $3 million and that entities expending between $3 million and $5 million be required to undergo a more focused version of the Single Audit as explained in the OMB in their notice of intent to reform policies associated with Federal grants. With the increase in the single audit threshold to $3 million, 85% of the federal funds spent by local governments in Minnesota still would have been subject to a Single Audit during the fiscal year ended June 30, 2011. Local governments in Minnesota expended a total of $3.336 billion during the fiscal year ended June 30, 2011. The following is a summary of the federal funds expended, at intervals of a million dollars, and the percent of the total federal funds expended during the fiscal year ended June 30, 2011: $1 million: $3.196 billion - 96% $2 million: $3.012 billion - 90% $3 million: $2.850 billion - 85% $4 million: $2.716 billion - 81% $5 million: $2.538 billion - 76%
There can be an inverse relationship between improper payments and the size of the recipient. Smaller entities do not always have sufficient resources to properly manage federal awards. Individually, each recipient or subrecipient expending less than $1 million may not present a material risk, but collectively it could. Increasing the threshold would likely increase costs to the state of Montana.
The approach discussed for entities that spend between $1 million and $3 million is good. Would it be feasible to use the same approach for entities

Comment
spending between $3 million and some higher amount and increase the designated compliance requirements to be tested? Maybe test 3 or 4 compliance requirements as identified by the grantor agency.
We would like to see the threshold increase to at least $3 million. In addition, the $300,000 Type A threshold is out-dated and adds administrative and audit burden. As long as the Audit Coverage requirements are in place, raising the Type A threshold would not likely increase risk that improper payments, waste and abuse would not be detected.
The cost/administrative burden of a single audit should not outweigh its public benefit. We believe OMB's proposed threshold changes are reasonable. That is, they easily pass the cost – benefit test considering they result in less than a 1% decrease in audit coverage.
Yes. The recommendations provide a good approach for increasing the threshold amounts.
Yes, the threshold should be increased to $1 million.
Single audit threshold: We agree that the current threshold should be increased from the $500,000 level. The proposed three-level approach is certainly an improvement to the current process and would help reduce audit costs for those entities receiving federal awards. However, we feel that OMB should consider higher ranges at least for the second and third levels. For example, we would suggest that the range of expended for the focused audits would be more appropriate at $1 million to $10 million and that the full audits should be for those over $10 million. Even the $1 million level for no audits should be reconsidered. Utah is a small state, but under the current OMB guidelines any grant less than $1.7 million is not even evaluated for risk or considered for testing. No doubt the bigger states have much higher amounts they don't look at. Therefore, we are not convinced that entities with less federal expenses can justify the costs of even a focused audit.
Yes. We support an increase to $1 million. Refer to our analysis in Section A above.

4. Which types of currently universal Single Audit compliance requirements do you think are most essential to identifying and mitigating waste, fraud, and abuse?

Comment
We agree that the following compliance requirements are more essential: Allowable or unallowable activities and costs; eligibility; period of availability; reporting; procurement, suspension, and debarment; special tests and provisions; and, depending on the program and recipient, subrecipient monitoring (which should be provided by the pass-through agency rather than the auditor).
See our comments above for further details. However, beginning with those compliance requirements described in the Workgroup Recommendations report, we believe the most essential compliance requirements for identifying and mitigating waste, fraud, and abuse are: Activities Allowed and Allowable Costs/Cost Principles and Eligibility. We believe all other compliance requirements might provide indications or identify risks of waste, fraud, and abuse; however, these other compliance requirements rarely, if ever identify waste, fraud, abuse, or other improper payments.
We believe the following requirements should be the "universal compliance requirements" that would always be tested (if material) to the major program.

Comment
• Activities Allowed • Allowable Cost • Eligibility • Subrecipient Monitoring (only the portion concerning “during-the-award monitoring”) We don’t believe the Special Tests and Provisions compliance requirement consistently focuses on financial aspects of federal programs prone to waste, fraud and abuse. If federal agencies have specific financial risk areas (waste, fraud, abuse, etc.) where they want the auditor to focus, they should be able to articulate those in Part IV of the Compliance Supplement under the compliance categories specified above.
We believe the most essential compliance requirements, which we find through auditor judgment to be direct and material to the programs we audit, are generally the following: • Activities Allowed or Unallowed, • Allowable Costs/Cost Principles, • Eligibility, • Reporting, • Subrecipient Monitoring, and • Special Tests and Provisions (in some cases) If these compliance requirements are determined to be essential overall, we still believe auditor judgment should be reserved as the primary method for determining direct and material compliance requirements, appropriate sample selection methodologies, and materiality.
I believe eligibility is the most important compliance requirement for improper payment prevention and detection – followed by allowable costs and subrecipient monitoring.
Allowable Costs/Cost Principles Eligibility Reporting Subrecipient Monitoring Special Tests and Provisions
We believe that activities allowed/unallowed, allowable costs/costs principles, and eligibility compliance requirements are most essential to identifying and mitigating waste, fraud, and abuse. Some current requirements under Special Tests and Provisions are also essential for some programs.
We think Activities Allowed/Unallowable Costs and Eligibility are most essential in identifying fraud and abuse.
Allowable/unallowable costs, eligibility and subrecipient monitoring. We believe that matching and (financial) reporting are compliance requirements that should be reviewed by the Federal Government, as opposed to the independent auditor through the Single Audit, because this information is reported to and reviewed by the Federal Government upon each report submission. It appears there is duplication of efforts the way reporting and matching currently are handled.
Interesting question. The "devil" as they say is in the details. Depending upon the circumstances it could vary.
Activities Allowed/Unallowed, Allowable Costs/Cost Principles, Eligibility, and Subrecipient Monitoring
The most essential compliance requirements include activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement, reporting,

Comment
subrecipient monitoring, and special tests and provisions.
Activities allowed/allowable costs and eligibility.
The primary requirements for which non-compliance results in questioned costs include Allowability, Eligibility, and Match. Non-compliance or disregard of the other universal requirements, such as Reporting, Davis Bacon, Equipment and Real Property, Level of Effort and Earmarking, Period of Availability, Subrecipient Monitoring and Special Tests and Provisions would not ordinarily result in material questioned costs or be due to improper payments, waste, fraud and abuse. Part II C.2. in the Proposed Rules includes the following: “For all entities that undergo a full Single Audit, the universal compliance requirements listed in the Circular A–133 Compliance Supplement could be streamlined to focus on proper stewardship of Federal funds. This could be done, for example, by emphasizing—in the universal compliance requirements—those elements that address improper payments, waste, fraud, abuse, and program performance, while streamlining other elements. Under this approach, a subset of compliance requirements would be targeted for increased testing, larger sample sizes, or lower levels of materiality.” It should be noted that Statement on Auditing Standards No. 117, issued by the Auditing Standards Board in December 2009, already requires auditors to evaluate materiality at the requirement level, perform risk assessments and design testing based on that information. Note the following excerpts: Performing Risk Assessment Procedures (Ref: par. .A12—.A15) .15 For each of the government programs and applicable compliance requirements selected for testing, the auditor should perform risk assessment procedures to obtain a sufficient understanding of the applicable compliance requirements and the entity's internal control over compliance with the applicable compliance requirements. .16 In performing risk assessment procedures, the auditor should inquire of management about whether there are findings and recommendations in reports or other written communications resulting from previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit. The auditor should gain an understanding of management's response to findings and recommendations that could have a material effect on the entity's compliance with the applicable compliance requirements (for example, taking corrective action). The auditor should use this information to assess risk and determine the nature, timing, and extent of the audit procedures for the compliance audit, including determining the extent to which testing the implementation of any corrective actions is applicable to the audit objectives. Establishing Materiality Levels (Ref: par. .13) .A6 In a compliance audit, the auditor's purpose for establishing materiality levels is to a. determine the nature and extent of risk assessment procedures. b. identify and assess the risks of material noncompliance. c. determine the nature, timing, and extent of further audit procedures. d. evaluate whether the entity complied with the applicable compliance requirements. e. report findings of noncompliance and other matters required to be reported by the governmental audit requirement. .A7 Generally, for all of the purposes identified in paragraph .A6, the auditor's consideration of materiality is in relation to the government program

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taken as a whole. However, the governmental audit requirement may specify a different level of materiality for one or more of these purposes. For example, for purposes of reporting findings of noncompliance, OMB Circular A-133 requires that noncompliance that is material in relation to one of the 14 types of compliance requirements identified in the OMB Compliance Supplement (Compliance Supplement) be reported.
We believe *allowable costs, cost principles, eligibility* and *subrecipient monitoring* requirements are the most essential in identifying and preventing improper payments. Financial and compliance audits are not designed to measure ***waste***, though auditors might recommend process improvements to efficiency.
Sub-recipient Monitoring Allowable Costs/ Cost Principles Activities allowed or disallowed Eligibility Reporting
Subrecipient monitoring should be included as a second mandatory compliance requirement for all federal programs. As OMB's proposal lessons the number of subrecipients requiring a single audit, the need for alternative subrecipient monitoring becomes more essential.
Vulnerability to fraud, waste, and abuse varies among the Federal grant programs. The compliance requirements that are most essential to mitigating these risks depends on the nature of the Federal grant program as is stated in Section A of the Reform Ideas for Comment. OMB and Federal agencies should consider requesting assistance from the various federal inspector general offices and the U.S. Government Accountability Office in assessing what areas are most vulnerable to fraud, waste, and abuse. Nonetheless, we consider the Reporting, Subrecipient Monitoring, and Activities Allowed or Unallowed as most essential in Single Audit testwork in detecting and mitigating fraud, waste, and abuse.
As an independent state audit organization, it is our experience that the following compliance areas have a higher risk of improper payments: • Activities Allowed or Unallowed • Allowable Costs/Cost Principles - Can be merged with Activities Allowed/Unallowed • Eligibility • Matching • Procurement and Suspension and Debarment
Compliance requirements: We strongly agree with the concept of reducing the compliance requirements to focus on those which are most important. We agree that there are some compliance requirements that provide very little value for the cost incurred to test them. However, we do not feel that these requirements should just have reduced sample sizes. Rather, these requirements should be eliminated altogether. Reducing the sample size will not sufficiently reduce the cost to make the test worth the cost. There is one part of the proposal that causes us great concern. On page 20 it states that "Agencies could add back specific requirements under program specific tests and provisions where necessary." This seems to be a smoke and mirror approach of saying that the compliance requirements were reduced and yet the agency could transfer all the deleted requirements into the special test requirement. We certainly do not support that change.
Single Audits are designed to mitigate waste, fraud, and abuse through their testing of internal controls. Identifying these items is more in the purview of discovery/forensic audits, which are far more expensive and are only effective when there is evidence of a possible fraud or abuse. Therefore, none of

Comment
the compliance requirements are essential to identifying these items; however, Allowable Costs along with Reporting are most essential to mitigating waste, fraud, and abuse. The reason for these two is that for a cost to be allowable, it must be for an allowable activity under the grant, which in most cases has to support people who are eligible for the program or for services properly procured. As for reporting, grantees should be providing their grantors with adequate information to allow the granting agency to provide proper oversight to prevent waste, fraud, and abuse, which they cannot do if the information is not accurate.
Activities Allowed, Cost Principles, Eligibility, Reporting, and Subrecipient Monitoring.

5. What processes or tools should the Federal Government implement in order to ensure better coordination in the Single Audit oversight by Federal agencies and pass-through agencies, including in the resolution of audit findings that cut across multiple agencies' programs?

Comment
The reform idea requiring Federal agencies to conduct audit follow-up of the subawards for those audit findings related to financial or internal control systems, contingent on the follow-up being timely, would eliminate duplicative audit work. The idea to not require pass-through entities to oversee resolving these issues - again if Federal follow-up is timely - would provide more time for them to focus on the program requirements of those subawards. In theory, these ideas sound like true problem-solvers; however, the timing of resolving the audit findings by the Federal agencies would be critical to noticeable impact for the pass-through agencies, subrecipients and the success of the programs as a whole.
Many of the reform ideas proposed are directed to improving the federal agencies' effective implementation of their responsibilities. We cannot stress enough the frustration we have experienced to this point in the, generally, poor performance in award monitoring, audit oversight, audit resolution, answering auditor or grantee questions, and preparing a timely compliance supplement. Many of the reform ideas proposed in this document would appear to provide the opportunities for positive change in these areas so that the actual objectives intended of the federal, auditor, and grantee can be met.
We believe this question should be addressed by the administering agencies and their management, who are responsible for issuing management decisions.
We have no suggestions for better coordination at this time.
The first thing that would help is to consistently make the distinction between federal agencies and state agencies in your communications with the states. We are often left guessing which level you are addressing. I do not believe the hand off from the federal oversight agency (for the direct grant) to the pass through entity of responsibility for financial and internal control findings will work. This seems like an unnecessary complexity that will cause the participants to be unsure of who is responsible for what. It would work better for the federal direct granting agency to take and retain responsibility for all single audit requirements whenever a subrecipient has both direct and passed through grants, and have the pass through entity only responsible for single audit requirements in those instances where the subrecipient has no federal direct grants. This is a simple and straight-forward requirement that would ensure grantees know to whom they are responsible – if you take any direct federal grant you answer directly to the federal government.
A web-based application should be created, for the use of Federal grantor agencies, whereby they can document various aspects of their oversight efforts, including information related to management decisions. This application should allow for the storage of key audit documentation obtained from the auditors and other information obtained from the non-Federal entity to eliminate the need for multiple Federal grantor agencies from requesting the same information.

Comment
We suggest giving consideration to having one Federal organizational unit, perhaps within the Federal Audit Clearinghouse or OMB, complete the Council of Inspectors General on Integrity & Efficiency (CIGIE) Uniform Guide for Desk Reviews of A-133 Audit Reports for each audit that is submitted to the Federal Audit Clearinghouse. This would eliminate the need for each Federal agency and pass-through entity's performance of such reviews.
More guidance on monitoring for those pass through entities since audit programs are not likely to be applicable for many subrecipients. Also, how will this coordination be communicated? Also consider whether there will need to be more funds budgeted for program costs related to monitoring.
Establishing a form of communication between the Federal Government and the independent auditor when the Federal Government identifies comments or questioned costs reported in the Single Audit that are not relevant or not appropriate to have been included in the Single Audit.
Strengthening this process is an important focus. Often a number of different Federal agencies are involved in the process. We are encouraged about some of the concepts outlined concerning strengthening the audit resolution policies.
No suggestions at this time.
Federal government agencies should be required to rely on the results of the Single Audit information as provided to the Clearinghouse. Additional reporting mechanisms and audits/reviews currently required by Housing and Urban Development and Department of Education have placed burned on states. If the information at the Clearinghouse is not useful to the Federal Government agencies, they should identify those unmet needs and modify Single Audit requirements to meet those needs.
Each year we get an approval letter from the cognizant federal agency that identifies the federal agency that is responsible for performing the follow-up for each finding that is reported in our State's Single Audit report. I don't know if this list is communicated to all federal agencies or not but it should be. If this list is used, there should be no confusion related to the follow-up of findings that cut across multiple agencies. We always have numerous findings drop off of the Summary Schedule of Prior Audit Findings (SSPAF) in our state's Single Audit report because the federal agency did not issue a management decision and there was no follow-up by the federal agency within the two-year period. For example, we reported 129 findings in our 2007 Single Audit report and 65 of the 129 findings were dropped from the SSPAF in our 2010 Single Audit report because of no follow-up by the federal agency. For 2008 we reported 135 findings and 42 will be dropped in the SSPAF because of no follow-up by the federal agency. While the cognizant agency is reviewing the single audit reports, the SSPAF section could be reviewed to determine which federal agencies are not issuing management decision letters. There has to be some communication between the federal agencies since many of the findings that drop are findings that the agency that is responsible for follow-up in not our cognizant agency. Maybe by reducing the number of audits, there will be more time for the federal agencies to follow-up on audit findings. More involvement by the federal agencies could then in turn reduce the findings in future years.
The Federal Audit Clearinghouse could be updated to allow for oversight agencies to report actions taken on findings reported in the Data Collection Form, viewable by other oversight agencies, which could reduce duplication of efforts.
As independent auditors, sometimes we have difficulty obtaining audit finding resolutions. The Federal Government should modify the Federal Audit Clearinghouse database to report Federal and pass-through agencies' management resolutions to audit findings (i.e., their **management decisions**). The documented resolution of findings should be accessible to the public, including state and local governments and their auditors. Also, please see our response to B. 1 above suggesting pass-through entities to base their extent of subrecipient monitoring on risk assessments.
• More open communication between the parties.

Comment

- A centralized system to track coordination between entities.

It would be helpful if Federal agencies could provide a public facing website that would indicate the status of finding resolution (i.e. pending review, review in process, etc.) and which agency is currently responsible for the resolution of said finding.

The federal government could allow all pass-throughs access to the full content of the Federal Audit Clearinghouse (FAC). Allowing pass-throughs to have access to the FAC along with any tools federal agencies may develop will ensure better oversight of the Single Audit process. As seen in the following analysis, 31.6 percent of all recipients of Single Audits do not receive any funding directly from the federal government, which means that federal agencies are not responsible for resolution of their audit findings. Without federal agencies and pass-throughs working from one complete set of Single Audits, there is little chance of proper coordination or oversight of the Single Audit process.

Analysis of Federal Funding: Direct from Federal Agencies vs. From Pass-throughs Covered by Single Audits

	DIRECT FEDERAL FUNDING ONLY		MIXED FEDERAL FUNDING (From both Federal and Pass-throughs)			FEDERAL FUNDING FROM PASS THROUGHS ONLY		CROSS-FOOT			
Grant Funds Expenses	Count of Grantees with Only Direct Federal Expenses	Sum of All Direct Expenses	Count of Grantees with Mixed (Direct & Pass-through) Expenses	Sum of All Direct Expenses at Mixed Funded Grantees	Sum of All Federal Funds from Pass-throughs at Mixed Funded Grantees	Count of Grantees with Only Pass-through Funding	Sum of All Expenses from Pass-throughs	Grand Total Count	Total of Direct Federal Funds	Total of Pass-Through Funds	Grand Total of Direct and Pass-through
Over $50M	178	296,865,591,937	754	526,054,202,747	53,383,159,153	78	8,199,870,717	1,010	822,919,794,684	61,583,029,870	884,502,824,554
Between $50M-$5M	1,997	23,396,621,022	4,474	34,404,081,774	29,216,546,378	1,428	16,352,112,081	7,899	57,800,702,796	45,568,658,459	103,369,361,255
Less than $5M	9,281	16,376,389,081	9,103	7,693,703,083	9,970,699,019	10,420	16,120,293,747	28,804	24,070,092,164	26,090,992,766	50,161,084,930
Totals	11,456	336,638,602,040	14,331	568,151,987,604	92,570,404,550	11,926	40,672,276,545	37,713	904,790,589,644	133,242,681,095	1,038,033,270,739
Percentages	30.4%	32.4%	38.0%	54.7%	8.9%	31.6%	3.9%				

Source: Federal Audit Clearinghouse Database
Downloaded on July 2, 2010

Funds from Pass-throughs Receiving Less Than $5M			Pass-throughs Should be Responsible for:	
	Expenses	Count	Total of Pass-through Only	40,672,276,545
Mixed Less than $5M	9,970,699,019	9,103	Less than $5M, Mixed, From	
Pass-Throughs Only	16,120,293,747	10,420	Pass-throughs	9,970,699,019
Total	26,090,992,766	19,523	Total	50,642,975,564
	2.5%	52%	Percentage of All Funds	4.9%

Checked for Reasonableness:		
Worksheet*	37,548	1,035,151,942,672
Difference	165	2,881,328,067
Percentage	0.44%	0.28%

Difference is mostly caused by data being pulled from the FAC on two different days.
All differences are less than 1/2 percent, reasonable for discussions
* Stratification of Entities by Amount of Federal Awards Expended

We support any reform that will mitigate delays in the response time by federal agencies when issuing their management decisions to audit findings.

A-133 Section .405 - Management decision.

(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action…

Comment
(d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible. [emphasis added]

Cost Principles

1. On indirect cost rates:

a. Would administrative burden be reduced by having an indirect cost rate in place for 4 years?

b. Are there any existing Federal or state level statutory/regulatory/agency requirements that would prohibit recipients from using a "flat" indirect cost rate if it were proposed?

Comment
a. Extending the indirect cost rate to a longer period, e.g., the 4 years suggested, would relieve the administrative burden. b. If, at the federal level, a "flat" rate applicable for 4 years (or some other timeframe) was adopted, there would be reduction in the administrative burden of the processes related to the indirect cost rate.
a. We have no opinion on this suggestion. b. We are not aware of any such prohibitions.
a. Yes, we believe the administrative burden would be reduced if the only change to the indirect cost rate would be to extend the period to 4 years. b. We are not aware of any federal or state level requirements prohibiting a "flat" indirect cost rate.
a. Yes. Preparing indirect cost rates once in four years would greatly reduce our state's administrative burden. Currently, most Colorado higher education agencies receive approval for a multiple year rate agreement, but state agencies have not been successful in achieving multiple year approvals from our cognizant agencies. Multiple year rate agreements are preferred by all. If multiple year agreements are adopted, we believe OMB should include a clause in the agreement that allows for revision of the rate agreement if material changes in the organization occur that would make materially change the rates, such as, the addition of a new grant award or reorganization of the grantee entity. b. We are not aware of any state level prohibitions against a flat rate Indirect Cost Rate Proposal (ICRP).
a. Yes, there is no need for these each year. b. We are not aware of any.
a. We would expect costs of negotiating the indirect cost rate would decrease; however, we are concerned that the outcome would be the recovery of less indirect costs. b. No comment.
No comments on this section.
a. Yes b. Under Montana state law, we have to recover to the fullest extent possible. A flat rate may cause the recovery to be smaller, but would not be disallowed by state law.
a. Most likely. We are aware that many agencies do not have the expertise to develop the indirect cost rate agreement and are required to use an outside contractor to assist with developing the proposed rate agreements.

Comment
b. Not that we are aware of.
a. We believe having an indirect cost rate in place for four years would benefit smaller governments. However, a long-term indirect cost rate may not be practical for states and larger governments with complex indirect cost allocation plans subject to more volatile cost fluctuations. b. We are not aware of any existing federal or state level statutory/regulatory/agency requirements that would prohibit the use of a flat indirect cost rate.
a. The effort to submit the proposal would be less burdensome, but supporting documentation would still be required. It has the potential to reduce administrative burden, but four years is a long time to not incorporate any changes related to the plan. b. None have been identified.
a. It appears as though both administrative burden and costs associated with the calculation of the indirect cost rate could be reduced. b. Unknown.
The state of Tennessee has had limited experience using a flat indirect cost rate over a multiple year term. In general, particular agencies are required by federal grantor regulations to have public assistance cost allocation plans, annual provisional-final indirect cost rates, or annual fixed with carry-forward indirect cost rates. How much the administrative burden would be reduced would depend on how the proposed changes are implemented. We would propose a multiple year flat rate based on historical accounting and activity data and that recovery based on the flat rate closely mirror the actual indirect cost trends over the term of the indirect cost rate agreement. We would also like to inquire as to the basis for the selection of a four-year time period for the discounted negotiated rate option that is proposed. We would recommend that OMB consider setting this time period based upon the type of program.
a. As an independent state audit organization, we anticipate that our audit resources associated with auditing indirect cost rate proposals would be reduced by allowing a 4-year term for these agreements.
Consolidating OMB Circulars: We wholeheartedly agree with this concept but are not confident OMB can make it happen. It seems to have been suggested and tried in the past without success.
a. The administrative burden could increase depending on how the 4 year indirect cost rate is implemented. Administrative burden will always shift to the states if there is only a one-way true-up at the end of the 4 year period. For example, if a state takes administrative actions to reduce indirect costs, then the state would have to refund the federal agencies for part of these savings. The same would be true if economic conditions cause indirect costs to increase and the federal government is not willing to accept its share of these additional expenses. This true-up has become less of an issue because recent economic conditions has caused the costs for most items to stay relatively flat; however, if inflation was to dramatically increase a state's indirect costs and there was no mechanism for adjusting indirect rates for 4 years, then the burden could be rather large for the state. Consider adding an adjustment mechanism to limit the possible administrative burden for the States. For example the adjustment mechanism could be linked to the Consumer Price Index.
None that we are aware of.

2. What are your views on the following types of indirect cost rates?

a. A flat rate

b. Longer term for negotiated rates to be in effect

c. A flat rate that would be a fixed percentage of the organization's already-existing negotiated rate

Comment
a. Favor a flat rate for a prescribed period of time. b. In favor of the longer time period. c. We are not in favor of this suggestion.
Without more information on how this proposal would affect audit effort (if at all), any comment on this proposal would be premature.
We believe this is a management decision for those entities receiving federal funds.
a. A flat rate – Colorado welcomes the flat rate proposal, but only for small grants and pass-through grants. We prefer that agencies have a choice between a flat rate and a negotiated indirect rate if the grant amount exceeds a certain threshold. Currently several state agencies have chosen to forego preparation and negotiation of rates because it is not cost effective for them to spend the additional resources necessary for the small recovery available. However, if flat rate was allowed, these agencies would recover some administrative costs, and the administration of federal grants would be more equitable. b. Longer term for negotiated rates to be in effect – We welcome the proposed longer term for negotiated rates to be in effect as long as there is provision to amend the proposal in the event of organizational changes, changes in program's operation, or the addition or deletion of current grants. c. A flat rate that would be a fixed percentage of the organization's already existing negotiated rate - We are assuming in this response that the term flat rate would remove the requirement to adjust to actual cost that is incorporated into the Division of Cost Allocation's commonly referred to 'fixed with carry forward' method. Although removing the adjustment-to-actual requirement would be beneficial, we do not believe a flat rate that is a fixed percentage of an organizations existing rate is workable. The document indicates that OMB believes the flat rate to be a viable cost reduction opportunity for the federal government. We do not believe that is correct. The costs involved in preparing and negotiating the existing rate are small in relation to the other overhead costs of the State that represent the largest portion of the negotiated rate. The time delays and bureaucratic inefficiencies of negotiating the SWCAP and rates is the more important consideration.
We really have no views on indirect cost rates since we are the auditors.
a. Indirect costs for one state could be significantly different from another state. How would flat rates be determined? Would the size and location of the state be a consideration? Would the details of the specific proposals by states be considered? b. There could be a number of changes in the program during the time the rate is approved. Could these rates be re-negotiated if there were extenuating circumstances in the period of time the rate was established for? If so, what criteria would need to be met and how would this be handled? c. The proposal mentions discounting the already negotiated rate. This would seem to be a negative outcome for states because costs of running programs would be expected to remain constant, or increase.
No comments on this section.
a. A flat rate would take considerable less time and should be easier to negotiate. b. This would also be a cost savings for audit. c. This would be a cost savings for audit and provides greater stability in the budgeting process.
a. If the flat rate is insufficient, it could result in an implied match burden on the recipient, so if a flat rate is in effect, the recipient should be allowed to

Comment
submit a cost allocation plan to support a higher rate. This would streamline the audit for the indirect cost allocation plans. b. This could result in reduced administrative burden. c. No comment.
As independent auditors, we have no strong opinions on these rates. However, we expect state and local governments would recognize administrative and audit cost savings from instituting a more simplified method for calculating and negotiating indirect cost rates.
a. This rate has potential to lower the administrative burden. b. This rate has potential to lower the administrative burden, but does not incorporate changes. c. This rate has potential to lower the administrative burden, but could harm the existing recovery levels.
a. This type of rate should both reduce administrative burden on management and their external auditors. b. Depending up on the length of time negotiated, grantees should be able to request an audit to adjust costs to actual if actual rates are significantly higher than originally negotiated. c. Unknown
Flat Rate Indirect Cost: The concept of using a flat rate has the ability to reduce indirect costs but only if an annual analysis comparing the flat rate to actual cost is not required. Also, allowing the choice between a negotiated rate and the flat rate would seldom reduce cost, since all of the work of negotiating a rate would still have to be done.
a. We believe for a flat rate to achieve its goal of reducing administrative burden, it cannot have a true-up attached to it. Meaning if a state operates its programs efficiently to keep indirect costs below the flat rate, then the State should be able to keep the savings to provide services.
a. A flat rate. We support this reform and believe it will ease the administrative burden for small local governments that struggle with preparing and maintaining indirect cost rate proposals. b. Longer term for negotiated rates to be in effect. We support giving the entity an option of a flat rate or negotiating a higher rate. If negotiated, we support longer terms as described. The reforms will need to address whether small local governments that do not want to accept a flat rate will be required to negotiate their rates or whether they can continue to prepare their ICRP without negotiation as is currently permitted under A-87. Appendix F: "... The cognizant agency for all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. In these cases, a governmental unit must develop an indirect cost proposal in accordance with the requirements of 2 CFR 225 and maintain the proposal and related supporting documentation for audit. These governmental units are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient's plan." Further, if local governments are permitted under the reform to prepare and apply an ICRP without negotiation, we recommend clarifying the frequency of how often their ICRP's must be updated and reconciled (e.g., annually, biennially, etc.).

3. In general terms, what would be the cost implications of implementing each of the following reforms, and/or of all of them together?

a. The proposed clarifications to allowable charges of directly allocable administrative support as a direct cost. As currently envisioned, reforms would clarify that project-specific activities such as managing substances/chemicals, data and image management, and security are allowable.

b. Allowing costs associated with recovery of improper payments.

c. Allowing excess capacity for telecommunications and public safety projects?

Comment
a. We agree with the proposed clarification of allowing the charges of directly allocable administrative support as a direct cost. b. We also are in total support of allowing costs associated with efforts to recover improper payments when approving such costs are only when the anticipated recovery amount more than justifies the expense of the collection. c. We are in agreement with allowing excess capacity for anticipated increased usage.
We have no comments in response to this question since it is better addressed by the state's management.
We believe this is a management decision for those entities receiving federal funds.
a. The proposed clarifications to allowable charges of directly allocable administrative support as a direct cost. As currently envisioned, reforms would clarify that project-specific activities such as managing substances/chemicals, data and image management, and security are allowable. We expect the cost implications of implementing this proposed clarification would be limited for two reasons. First, the areas to which the change is applicable is limited. Second, we are unlikely to operate projects in these areas where a clear service benefit relationship could be established in order to meet the allocability requirement. b. Allowing costs associated with recovery of improper payments. While we do not believe there would be significant costs associated with allowing states to retain the costs associated with recovery of improper payments, we do believe the current requirements to return 100% of recovered improper payments is a significant and perverse disincentive that is contrary to the President's push to remediate improper payments. c. Allowing excess capacity for telecommunications and public safety projects? Although there may be significant costs related to the excess capacity, we believe those costs are minor in comparison to the fixed costs of addition projects to add capacity or add similar projects. Overall the federal government would be better served by participating in projects that are right-size over their service lives.
Again, we really have no view on these questions since we are auditors.
No comment.
No comments on this section.
No comment.
a. This could be beneficial, as we have noted that administrative support staffs occasionally work on activities or projects that may be directly related to specific program objectives. b. No comment. c. No comment.
The Ohio Auditor of State's Office does not receive Federal awards. Therefore, we have no comment on this question.
a. It is difficult to determine unless these plans are actually implemented. It remains to be seen regarding reduced administrative burden. No

Comment
foreseeable change. These items typically lack sufficient detail to support direct billing to a program. b. It is difficult to determine unless these plans are actually implemented. It remains to be seen regarding reduced administrative burden. c. It is difficult to determine unless these plans are actually implemented. It remains to be seen regarding reduced administrative burden. This may be especially beneficial during the initial stages of entity-wide consolidations.
The Bureau of Commonwealth Accounting indicated that they did not have any concerns regarding these proposals.
We do not have any specific comments about reforms listed in question number three. We could be supportive of the initiative depending on how a more detailed proposal would be implemented.
From an audit perspective, the reforms should address the supporting documentation needed to demonstrate the allocability of the proposed direct charges: Circular A-87, Appendix A 3a: "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

4. Would you be potentially interested in participating in a piloted alternative for time-and-effort reporting? Is there a permanent change to time-and-effort requirements that you recommend OMB consider?

Comment
No – time constraints to meet current deadlines with limited resources would not allow participation.
We will not comment on this question since it is one better addressed by the state's management (specifically the Department of Finance).
We believe this is a management decision for those entities receiving federal funds. Regarding time and effort requirements, OMB might consider simplifying the requirements for smaller local governments.
The Office of the State Controller would consider advocating that central service agencies participate in an alternative time and effort reporting pilot for purpose of the SWCAP only. However, we cannot speak for individual state agencies that prepare ICRPs or PACAPs. We believe OMB should authorize time and effort reporting using questionnaires issued on a quarterly basis.
N/A
No comment.
No comments on this section.
No comment.
Requirements over charges for personal services (salaries and benefits as prescribed in A-87) should be streamlined, considering that controls over payroll costs are tested as part of the financial audit.
As independent auditors, we are not subject to time and effort reporting and could not pilot an alternative program. Our auditors <u>have</u> encountered instances where school district teaching staff charge their compensation to a single federal program, such as Title I or IDEA Part B (i.e., Special Education), but have not completed the semiannual certification required by 2 CFR § 225 (A-87) Appendix B 8.h(3). Similarly, our auditors have reported instances of nonteaching staff charging their compensation to one Federal program / activity without completing the

Comment
certifications. Oftentimes, we believe adequate documentation exists to support the allowability of these costs, and actual work performed, in lieu of the stringent time and effort standards A-87 requires. The HHS Implementation Guide for State, Local, and Indian Tribal Governments (ASMB C-10), Part 3 provides acceptable alternative to the time and effort guidance A-87 requires. Yet, current guidance in Circular A-133 suggests reporting these matters as questioned costs. We believe the following noncompliance inherent risk characteristics and conditions for Ohio school districts reduce noncompliance risk: • Teachers charging the Title I or Special Education programs must be "highly-qualified" under the No Child Left Behind Act, have special training, and comply with annual continuing education requirements. For example, special education students obviously have special needs. It is unlikely a school could afford to hire more special education teachers than needed. Therefore it is unlikely a school would assign these teachers to a different activity. (Admittedly, a small district with few special education children might augment a special education teacher's daily duties with non-special education / non-Federal activities. Nevertheless, even in this circumstance the mitigating controls should help assure compliance.) • For nonteaching employees (e.g., cafeteria workers, bus drivers, janitors, etc.), the inherent risk of them working on more than one activity may be somewhat more, but is still likely limited. For example, bus drivers must be qualified. The "litigation risk" alone likely prevents a district from assigning an unlicensed cook to substitute for a bus driver, unless the cook also possessed a valid Ohio commercial driver's license, passed the pre-service exam and physical exams, received the requisite training from the certified regional transportation instructor, passed the BMV driver's abstract, and passed the requisite background checks for transportation employees. The school environment therefore may differ from other entities, where for example, clerical staff may be interchangeable to some degree and capable / qualified to work on more than one activity. Therefore, we believe the U.S. Department of Education should exempt school districts from semi-annual certifications. The U.S. Department of Agriculture should consider a similar exemption or modification to the A-87 requirements applicable to the Nutrition Cluster, commonly received by schools districts.
Yes.
Unknown at this time.
We would not be interested in participating in a pilot. The state of Tennessee has only recently implemented a new Enterprise Resource Planning (ERP) system that incorporates a time and labor component that meet current federal guidelines. Therefore, we do have concerns about the costs to the state if our ERP system would have to be modified or restructured to meet new regulations.

5. If your organization is an educational institution that does not currently receive the Utility Cost Adjustment (UCA), what are the general factors that your organization would likely consider in deciding whether to conduct a cost study, and complete a plan to reduce utility costs, in order to justify receiving the UCA?

Comment
N/A
We have no opinion or comment in response to this question.

Comment
N/A
Not applicable. The State of Colorado is not an educational institution and it is expected that Colorado Institution of Higher Education will respond to this question separately.
N/A
No comment.
No comments on this section.
No comment.
N/A
We are not an educational institution. Therefore, we have no comment on this question.
N/A
N/A
No comment.

6. For organizations with CAS-covered contracts, are there differences between what is envisioned here and the standards for CAS-covered contracts in the FAR that you believe could be challenging to address?

Comment
N/A
N/A. We are the State's independent external auditor.
N/A
We do not have the expertise to comment on this question.
N/A
No comment.
No comments on this section.
No comment.
N/A
We are not an educational institution. Therefore, we have no comment on this question.
N/A
The Bureau of Commonwealth Accounting indicated that they did not have any concerns regarding this proposal.
No comment.

Administrative Requirements

1. What areas of past performance should be considered as part of a Federal agency assessment of recipient risk (e.g., fulfillment of statutory matching requirements, record of sound financial management practices with no significant or material findings or weaknesses, ability to meet established deadlines)?

Comment
A record of sound financial management practices with no significant or material findings or weakness over time definitely impacts risk assessments as does meeting, on a regular basis, established deadlines. An agency's ability to understand and follow Federal guidelines should also help reduce risk of noncompliance.
In general, it seems that compliance with the "universal compliance requirements" contemplated in an earlier reform idea should be the focus. Specifically, Federal agencies may want to consider the following factors: • History of having a "qualified" opinion on compliance for the major program • History of audit findings where the recipient has been unable to adequately document how federal funds have been spent (i.e. non-compliance with the "Activities Allowed" and/or the "Allowable Cost" compliance requirements) • History of providing inaccurate or untimely financial or performance reports • History of non-responsiveness to management decisions issued by the federal government
Not applicable at the statewide level.
The Office of the State Controller does not apply for or receive federal grants; therefore, we do not have the expertise necessary to opine on the recipient risk attributes.
N/A
Review of prior Single Audit opinions and comments. We aren't sure if the "record of sound financial management practices with no significant or material findings or weaknesses" means that the awarding agencies will also be reviewing the opinions of the CAFRs. In our state, we received a qualified audit opinion for two years due to a scope limitation on the FY2009 CAFR. The scope limitation was the result of a reduction in appropriation to our state auditor, not as a result of limiting access to records and data. The state maintained that the state's financial statements were fairly presented in conformity with GAAP. Our concern would be that if the CAFR is one of the mechanisms for determining sound financial practices, the federal agencies could potentially look at this negatively when deciding to award a grant to our state. We would suggest that federal agencies be aware that there may be extenuating circumstances and follow-up with the state would be necessary before immediately deciding the award may not be granted because of the lack of an unqualified opinion on the CAFR or other weaknesses noted. These are not necessarily related to the management of the federal programs.
No comments on this section.
No comment.
Auditor's report of material non-compliance and material weaknesses with associated questioned costs.
Where single audits have been performed, these reports include a ***Summary of Audit Results*** (required by A-133 § .505(d)) summarizing noncompliance findings, control deficiencies and opinion exceptions affecting major Federal awards. This one-page summary is useful in identifying

Comment
higher-risk entities.
N/A
In addition to the items mentioned above, the ability of the recipient to meet established programs goals, the ability to resolve audit findings in a timely fashion, and the ability to provide transparency and accountability should be considered.
All areas of past performance should be considered as part of a Federal agency assessment of recipient risk and evaluation of merit. However, we believe that the specific standards and materials considered as part of the assessment of recipient risk and as part of evaluation of merit should not differ. In other words, the set of standards and process used for recipient risk assessment and merit evaluation should be parallel. This would prevent the possibility of requiring Federal agencies to collect more than necessary documentation from recipients and to ensure uniformity. We particularly listed the areas mentioned in the following order of importance: 1. Record of sound financial management practices with no significant or material finds or weaknesses. 2. Ability to meet established deadlines. 3. Fulfillment of statutory matching requirements.
There are many things for Federal agencies to consider as part of evaluating recipients; however, it should be up to each Federal agency to conduct a risk assessment to determine which risks they are willing to accept in their programs. Because these questions focus on requirements for federal agencies, we will not comment. On the other hand, if OMB is expecting pass-throughs to apply these same assessments when they award federal funds to subrecipients then OMB should re-expose these requirements with an explicit statement that all pass-throughs will inherent these administrative requirements. This is important, because on average pass-throughs award 8 grants for every 5 awarded by federal agencies (2008: 326,572 grants awarded by pass-throughs, 194,979 grants awarded by federal agencies). If these requirements are applied to pass-throughs, it could dramatically increase the administrative burden if they are not able to participate in their development.

2. What specific standards should be considered in Federal agencies' evaluation of merit prior to making Federal awards?

a. How should these be applied?

b. What elements and what source materials should be looked at?

Comment
Development of "best practices," based on relative indicators of performance or from previous outcomes (e.g., Single Audit), would assist in evaluation of merit prior to making Federal awards. Developing a risk-based approach to determining awards would also assist in evaluating merit for awards. This risk-based approach could include the results of a Single Audit, e.g., compliance with relevant standards, evaluation of prior outcomes of Single Audits, etc. a. Review compliance with standards possibly using the audit-risk metrics described in the Proposed Rules II (C)(3). Communications with pass-through entities should be considered if there are questions or doubts. b. Should the federal government digitize the Single Audit reports, searching the database for audit results and common findings would be a good

Comment
starting point. Analytical procedures designed from the database could also assist in development of best practices.
See response to the question above. a. We believe the federal government should decide how best to evaluate the merits of potential federal award recipients. b. The federal awarding agency should examine prior A-133 audit reports and the opinions on compliance provided by the independent auditors. Federal awarding agencies should also consider how responsive the recipient was to the federal government's management decisions.
No comment.
The Office of the State Controller does not apply for or receive federal grants; therefore, we do not have the expertise necessary to opine on the merit attributes appropriate for federal awards. a. Not applicable. b. Not applicable.
a. N/A b. N/A
We aren't clear if the expectation is that this will be passed on to states to implement prior to awarding grants to subrecipients. If that is the intention, we would disagree with requiring additional evaluation procedures prior to awarding grants to subrecipients. Departments currently go through detailed evaluation processes prior to awarding grants. The inclusion of more requirements will increase the administrative burden on states. a. No comment. b. No comment.
No comments on this section.
No comment.
Unqualified audit opinions. a. Recipients with qualified audit opinions would be subject to a probationary period, with funding provided incrementally. b. Annual audit reports.
Federal agencies should ensure recipients have sufficient grants management knowledge to administer compliance over Federal programs. For example, has the recipient appointed a management designee(s) to monitor Federal program compliance and performance? Can the management designee(s) demonstrate a basic understanding of the 14 (or less) compliance requirements? If not, Federal agencies should require the appointed management designee(s) to receive a minimum number of continuing professional education hours in the area of grants management prior to awarding Federal awards. Additionally, Federal agencies should require the recipient to appoint or engage the services of a specialist, if necessary, to oversee program performance prior to the Federal award. For example, most U.S. Department of Transportation and Environmental Protection Agency programs require the expertise of a certified Engineer to adequately oversee construction and compliance with Federal and state regulations. a. As explained above, Federal agencies should require recipients to appoint a designated management official(s) as part of the written Federal award application. Further, Federal agencies should require recipients to submit documentation (e.g., resume, continuing professional education certificates, written letter describing experience) supporting the designated management official's knowledge of and experience with Federal program compliance requirements. Or, in lieu of such documentation, Federal agencies could permit designated management officials to pass an online grants management exam prior to award.

Comment
b. See response to 2.a. above.
N/A
Past performance that would indicate the recipients ability to provide both fiscal accountability and programmatic results, should be considered in evaluating merit. a. Scoring, based on the above criteria, should be developed. b. Please see the elements that were listed in D1 above. Source documents could be previous audit reports, monitoring reports, required federal reporting, and recipient self assessments.

3. With respect to the existing government-wide standard information collection requests (ICRs) for grant applications and grant reporting --

a. Do these ICRs provide necessary information to enable Federal agencies to review grant applications or to monitor the progress of grant awardees?

b. Are these ICRs unnecessarily burdensome and, if so, in what way(s)?

Comment
a. We do think that some pertinent information is provided to assist Federal agencies in their review and monitoring efforts. b. The burden for the subrecipient to submit the collection requests is often placed on the auditor to ensure that the subrecipient does actually submit the request forms as required. Timelier monitoring of submission of the information collection request as well as feedback from the Federal agencies would relieve this burden somewhat.
We have no comment in response to this question. This seems like a question better addressed by federal awarding agencies and their grant recipients.
No comment.
a. The Office of the State Controller does not apply for or receive federal grants; therefore, we do not have the expertise necessary to opine on the ICR attributes appropriate for grant applications. b. The Office of the State Controller does not apply for or receive federal grants; therefore, we do not have the expertise necessary to opine on the burden attendant to the ICR requirements for grant applications.
a. N/A b. N/A
No comment.
No comments on this section.
No comment.
a. The Date Collection Forms available in the Federal Audit Clearinghouse are a good source of information, although they do not include information that would provide perspective of progress toward grant objectives. b. No comment.
The Ohio Auditor of State's Office does not receive Federal awards. Therefore, we have no comment on this question.

Comment
a. Yes, too much information is provided. b. Yes. Too much paperwork is involved and duplicate requests have been made.
Yes, I believe that this would lead to consistency and comparability, especially is it would relate to the determination or risk, success, past performance, etc.
No comment.

4. Should there be sets of standard data elements based on the type of assistance being provided (e.g. research, construction, social services, scholarships or aid program awards, etc.)?

Comment
While sets of standard data elements based on the type of assistance would be helpful, consolidating those standard data elements as they cross multiple programs would also be helpful.
We have no comment in response to this question. This seems like a question better addressed by federal awarding agencies and their grant recipients.
No comment.
Yes there should be a set of standardized data elements for assistance types. However, there is scarce indication that federal agencies will follow such a requirement absent an act of Congress.
Yes
The development of standard data elements could potentially be useful if the awards these elements are established for are similar and the data being collected provides value to the federal agencies.
No comments on this section.
No comment.
No comment.
Yes, we believe Federal agencies should develop standard data elements tailored to the nature of their programs. Additionally, OMB should develop a uniform set of data elements that is generally applicable to all Federal programs. OMB should discourage Federal or pass-through agencies from modifying or tailoring OMB standard data elements unless absolutely necessary based on the nature of a particular Federal program. OMB should require Federal agencies to request permission from OMB to customize such requirements prior to enacting them. For example, Procurement, Suspension, and Debarment requirements are codified in 2 CFR Part 180; however, most Federal agencies have also codified Procurement, Suspension, and Debarment requirements within their own A-102, etc. administrative common rules. As a result, many of the Federal agency common rules have nuances affecting compliance which are not included in 2 CFR Part 180. This, in turn, creates confusion among Federal award recipients and the audit community.
N/A
The Bureau of Commonwealth Accounting indicated that they did not have any concerns regarding this proposal.
No comment.

5. Are there any system issues and associated costs that may arise as a result of implementing the new pre-award and post award requirements? In general, what is the rough order of relative magnitude of these costs?

Comment
There is not enough time to develop a "rough order of relative magnitude of costs" for us in this response time. There will be both system issues and associated costs in implementation as we implement the new rules. However, we support change to the minimum threshold to assist in a more risk-based approach to the Single Audit as well as relieve the burden to every state to timely accomplish the task of completing the Single Audits. We still more enthusiastically endorse raising the minimum threshold to $5 million with no "strings attached." It seems prudent, in considering costs that ultimately flow to the taxpayer, that we dedicate our audit efforts to where the real risks reside. With the $5 million minimum threshold, performing the Single Audits would still provide 96% coverage of federal expenditures.
We have no comment in response to this question. This seems like a question better addressed by federal awarding agencies and their grant recipients.
No comment.
We could not relate this question to the content of the document and therefore are not responding to these two questions.
N/A
There would definitely be costs associated with requiring pre-awards. The costs involved in responding to the federal agencies conducting the pre-awards would be in addition to the costs already incurred by states when applying for grants. In addition, there would be a significant cost associated with this if these pre-award requirements are required of states before passing on grant funds to subrecipients.
No comments on this section.
No comment.
No comment
The Ohio Auditor of State's Office does not receive Federal awards. Therefore, we have no comment on this question.
N/A
There are definitely system issues and associated costs if reforms are implemented with new pre-award and post award requirements, single audit requirements, cost principles, and administrative requirements. For the most part we do not anticipate these changes to be overly burdensome or result in additional costs. However, one change that we are concerned with is a change to the CFDA number format that would require major changes to our system chartfields and to the Schedule of Federal Awards preparation process. Also, tracking cost and revenues under the Cash Management Improvement Act (CMIA) would possibly be hindered by a mid-year change in the CDFA number format because CMIA regulations required that expenditures and revenues be tracked by CFDA number.

OMB Reform of Policies Relating to Grants – Cost Principles and Administrative Requirements
Additional Questions by NASACT
Compilation of Responses – April 30, 2012

General Comments

Comment
We have found federal rules, regulations and communication to be confusing when the term “agency” or “agencies” is used due to the fact that departments within state government are often referred to as state agencies. It seems that often the federal communication is intending the term agency to mean federal agency, but we aren’t always certain of that. We would like to suggest that federal rules, regulations and other communication consistently use either “federal agency” or “state agency” so as to alleviate any confusion.

1. Monitoring subrecipients (What is the most efficient approach in your opinion? What suggestions would you like to make to OMB?)

Comment
In our opinion as an audit entity, the federal oversight agency (for the direct grant) should retain responsibility for all Single Audit requirements whenever a subrecipient has both direct and pass through grants and the pass through entity should only be responsible for monitoring for compliance with Single Audit requirements in those instances in which the subrecipient receives no federal direct grants. This would ensure grantees know to whom they are responsible. We also believe that each federal agency should determine the extent to which subrecipient monitoring is critical to each of its programs as it relates to federal compliance and communicate that information to the state agencies through OMB’s A-133 Compliance Supplement.
We do not believe components of monitoring should be added to the compliance supplement. We believe the guidelines and recommendations with detailed guidance which addresses the monitoring requirements of the compliance supplement should be a separate document. The following are items we believe should be addressed in this guidance: • What type of monitoring is acceptable and how much should be expected? • Is a review of audit reports only acceptable? If yes, in what particular circumstances? • Should on-site monitoring be required? In which cases would on-site monitoring not be the most appropriate method to monitor a subrecipient? • The more discretion a subrecipient has, the more monitoring should be necessary and, in many cases, on-site monitoring should be performed. • What specifically should be reviewed if on-site monitoring would be done? • When report review is done for monitoring, guidance should be provided on how detailed this should be. • Guidance should be provided on how the amount of funds provided to the subrecipient affects the amount and type of monitoring. • Guidance should be provided on whether the type of entity should be used to determine the amount and type of monitoring to be done. Subrecipients may be a County, City, School District or Community Action Agency. • Monitoring procedures should be skewed toward reviewing for improper payments and the allowability of the subrecipient expenditures/disbursements.

• We recommend allowing the use of a specified portion of the grant proceeds for monitoring activities.
Our state relies heavily on the single audits performed on its subrecipients when performing subrecipient monitoring. We agree with the need to increase the single audit threshold and understand this will impact the number of our state's subrecipients subject to the single audit. We suggest OMB outline the type of monitoring expected of subrecipients not subject to the single audit. While we understand the importance of maintaining a monitoring presence with these small subrecipients, and given these subrecipients spend small amounts of federal funds in a year, we would expect these procedures to be relatively minimal so as not to place a significant administrative burden on states.
Pass-through entity (ex. state agency) should monitor subrecipients and guidance should be more specific in some programs to ensure adequate monitoring procedures and frequency.
• Due to increased fuel costs, on-site monitoring of sub-recipients has become a substantial expense for the oversight agency. Desk audits appear to be the most economical and efficient approach to monitoring sub-recipients. • The federal government (OMB) should establish uniform sub-recipient monitoring procedures and checklists to be used across all federal awarding entities. In addition, OMB should clearly define what sub-recipient monitoring should consist of and provide firm guidance on sub-recipient monitoring expectations. • In communicating with the sub-recipients, it was found that the official verbiage of the controlling act contained in a letter to be the best way of informing them of the responsibility of their reporting requirements. It was found that the managers tend to react well with explicit corrections. • Most sub-recipients should be monitored by the grantee from a programmatic standpoint. Some of the concerns regarding a Single Audit threshold that may be considered high for sub-recipients are due to the fact that the monitoring has been occurring solely from a Single Audit perspective. This is very limiting and should not be taken into consideration when establishing the limits for the Single Audit. The grantee has the responsibility to insure that the program is being implemented properly and that it is inclusive of the financial responsibilities, notwithstanding a dollar threshold.

2. Major program determination (For large entities like states, changing the major program determination would result in significant efficiencies. Do you have any specific suggestions?)

Comment
We recommend increasing the percentages associated with major program determinations to either .005 or .010. Under current regulations using the .003 multiplier, our state audit's percentage of coverage is about 92 percent of total federal expenditures and our type A threshold is approximately $21.2 million. If the threshold multiplier was increased to .010, our type A threshold at the same expenditure level would be about $71 million, and our percentage of coverage would still be approximately 87 percent of total federal expenditures, which still represents a significant coverage amount. In addition, we suggest the OMB consider changing the rotation of the testing of type A programs from at least once every three years to at least once every five years and increasing the type B program threshold to $500 million and less than or equal to $300 with a sliding scale for additional amounts.
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 of Georgia, as does many states, falls into the third tier. A close examination of the state of Georgia'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 of Georgia, 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.

See the **Exhibit** below which 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

We would suggest increasing to .5% of total expenditures. For our state, this would have increased the type A program threshold from $20 million to $34 million for FY2011. There were 32 type A programs, including Student Financial Aid and Research and Development, in FY2011. Major programs tested accounted for 93.45% of the federal expenditures. The proposed increase would have resulted in 22 type A programs and testing of 90% of the federal programs.

We would also propose increasing the threshold for a type A program from $300,000 to $500,000 for those entities under $10 million.

The requirement to perform risk assessments on type B programs exceeding the larger of (a) $100,000 or 0.3% of total federal awards expended when an auditee has less than or equal to $100 million in total federal awards expended or (b) $300,000 or 0.03% of total federal awards expended when an auditee has more than $100 million in total federal awards expended seems to be a very low threshold. At this threshold, if an entity spends $1 billion, auditors are required to assess risk on programs with $300,000 of expenditures ($1 billion * 0.03% = $300,000). Given the planned increase in the threshold for single audits from the current $500,000 level to $1 million, or more, it would seem the threshold for requiring risk assessments for type B programs should also be increased.

Our state spends less than $10 billion in federal funds annually. For FY2010, our state's SEFA reported federal expenditures totaling $8.3 billion and our major programs (20 programs and 16 clustered programs) comprised 94% of that amount.

Per Circular No. A-133, "the auditor shall audit as major programs federal programs with federal awards expended that, in the aggregate, encompass at least 50 percent of total federal awards expended." We would recommend increasing the threshold for type A programs to reduce the percentage of federal funds spent that are considered major programs.

Based on our state's FY2010 Single Audit, revising the 0.003 type A multiplier, as noted below, would result in the following projected changes to the percent coverage and number of programs and clustered programs tested:

	Type A Multiplier	FY 2010 Expenditures	Type A Calculated	Type A Actual	Major Programs Tested	
					% Coverage	Programs/Clusters
FY 2010 $100M-$10B	0.003	$ 8,292,774,365	$ 24,878,323	$ 18,000,000	94%	36
Example 1	0.004	$ 8,292,774,365	$ 33,171,097	n/a	91%	23
Example 2	0.005	$ 8,292,774,365	$ 41,463,872	n/a	89%	19
Note: The threshold used for the FY2010 Type A programs was calculated based on FY2009 actual expenditures.						

The Medicaid Cluster and Unemployment Insurance federal expenditures were $2.269 billion and $1.299 billion, respectively, in FY2010. Making up 43% of our state's FY2010 federal expenditures, these programs simply dwarf the federal expenditures in our other federal programs. Due to the size of these programs, OMB could consider these separately from the other federal programs when determining a revised approach to calculating the type A programs and the acceptable percent coverage.

Increase to 0.005 x total federal awards expended when they exceed $100 million but are less than $10 billion, or .0025 x total federal awards expended when they exceed $10 billion – This should allow for resources to audit additional programs based on risk.

Major program determination should be based on historical audit findings such as the severity and type of audit findings that have a pervasive effect in grants management, not necessarily the dollar amount. Grants and/or programs that have been troublesome in the past should be

audited and be determined a “Major Program”.

3. Questioned costs (e.g., is it time to increase the $10,000 threshold? How? What amount? Sliding scale?)

Comment
We strongly support an increase in the $10,000 threshold for reporting questioned costs. In large states, many major programs are hundreds of millions of dollars and this reporting threshold seems inappropriate given the typical program size. OMB may want to consider establishing a reporting materiality level that is based on the recipient’s total federal spending under the major program. A good methodology to apply for everyone could be the greater of $10,000 or 1 percent of total federal expenditures for the grant as reported on the Schedule of Expenditures of Federal Awards.
We believe that the known and likely questioned costs thresholds as prescribed in Section.510, Audit findings, of OMB Circular A-133, should be modified relative to the amount of federal expenditures of the non-federal entity. We would be supportive of the following modifications: 1. For non-federal entities expending between $500,000 and $100 million, known and likely questioned costs should remain at $10,000. 2. For non-federal entities expending more than $100 million, known and likely questioned costs should be increased to $25,000. Increasing the reporting threshold for non-federal entities expending more than $100 million to $25,000 would result in some programs being evaluated as lower risk. Perhaps of greater significance, this would result in less audit findings needing to be followed-up in the subsequent period by both the auditor and the federal grantor agency.
We recommend increasing the threshold for reporting known or likely questioned costs to between $25,000 and $50,000. We do not agree with increasing the threshold significantly because questioned costs are usually directly related to improper payments, fraud, waste or abuse.
We agree with the need to increase the $10,000 threshold for reporting known or likely questioned costs. At a minimum, we would suggest increasing this threshold to $25,000 or $50,000 for all entities. We agree that using a sliding scale, similar to the scale used for calculating the type A programs, could be used in addition to increasing the $10,000 threshold. For example, there could be specific thresholds for entities spending $10 million - $100 million, $100 million - $5 billion, $5 billion - $15 billion, and greater than $15 billion.
Yes, a sliding scale based on total federal expenditures.
• It may be beneficial to explore an increase in questioned cost threshold to $25,000. • The threshold for questioned costs is fine as is. A questioned cost is a result of an error, and must be explained. A sub-recipient needs to be aware of this. • Definitely increase the $10,000 threshold. It should be proportionate with the Single Audit threshold that will be adjusted. The questioned costs threshold should be at least 1% of the new threshold for Single Audits. To create more efficiency, a 1% amount of the total federal award, per grantee could be set, if there is cause to believe that improper or fraudulent activities are occurring, thus creating listed questioned costs.

4. Capitalization thresholds (Many believe the current capitalization level of $5,000 in A-87 should be increased. How much? Would a sliding scale work based on entity size? Is there a way to make the federal capitalization threshold consistent with the state's capitalization threshold?)

Comment

We support aligning the federal capitalization thresholds with each state/local governments' capitalization threshold, within established parameters (which is what is reported in the financial statements). For our state, the capitalization threshold is $50,000 for most items.

Our state currently has a $5,000 capitalization threshold and we believe the federal threshold should not change.

Our state's capitalization thresholds as reported in the FY2011 Comprehensive Annual Financial Report (CAFR) were as follows:

Infrastructure	$	1,000,000
Intangible assets	$	500,000
Land, buildings and improvements	$	50,000
Equipment	$	5,000

Our state's equipment threshold is set at $5,000 due to the requirements of A-87. Our equipment (net of accumulated depreciation), as reported in the governmental activities in the FY2011 CAFR was 2.4% of the total governmental activities capital assets (net of accumulated depreciation). We would agree that the capitalization threshold could be increased. We would suggest increasing the threshold to $20,000.

A sliding scale based on total federal expenditures.

- The $5,000 capitalization threshold appears appropriate.
- A sliding scale based on entity size would be appropriate
- Capitalization thresholds are simply a convenience for bookkeeping. To establish a different class to ignore is a way around the problem.
- Yes, increase the $5,000 capitalization threshold. The purchasing limits for bidding, contracts and ease of commerce have been increased. Otherwise there are unnecessary and long standing records that must be maintained for this type of threshold. It should be raised to at least $20,000.

5. OMB has made two alternative proposals related to indirect cost rates. The first is a mandatory flat rate; the second is the option of a flat rate or a negotiated rate. The second option proposes a reduction of a government's existing rate while being able to keep the rate in place for an extended period (four years was cited but may be variable). (The indirect cost proposals begin on page 25 of the OMB document. The questions below address one part of fourteen pages of proposals on indirect costs. We welcome any comments you have on the indirect cost other proposals.)
   a. Do you believe a mandatory flat rate set by the federal grantor agency would be workable for your state? If so, under what conditions?
   b. Do you believe the less frequent preparation of Indirect Cost Rate Proposals (ICRPs) would result in a significant reduction in indirect cost rates and related recoveries for your state?
   c. If ICRP negotiated rates are allowed to be applied for extended time periods, do you believe that your statewide cost allocation plan (SWCAP) and your public assistance cost allocation plans (PACAP) could or should be prepared on a matching frequency? Would that less frequent preparation benefit your state?

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Comment
As an audit entity, we do not have any comments on this section.
a. We do not believe a flat rate would work. State agencies may treat administrative costs differently. Some agencies use a cost allocation plan to charge programs so would likely have a lower rate. Some agencies do not allocate costs and so may have a higher indirect cost rate. We do believe the indirect cost methodology does need to be revisited, but one size does not fit all entities. b. We do not believe it would significantly reduce the indirect cost plan rates in our state. Rates typically should remain fairly consistent between years, so a rate could remain in effect for 5 years. The actual results of prior periods should be reviewed and be considered when setting new rates. c. We believe match should be done. The benefit, if any, is unknown at this time.
a. We received the following comment from our state's Department of Education: The proposal to move to a flat indirect cost rate would be a disaster for us and removes the ability to make the Indirect Cost Rate (IR) match the context of the organization. When the economy here tanked, we went back in to our IR calculations and worked them over hard to try to ensure the rate reflected current structures and work. This allowed us to increase our rate, which in turn helped us fill some gaps left by reduced state funding. The flat rate proposal would be lower than what we get now and would force us into staff reductions. We don't mind giving entities the option of negotiating their own rate or accepting the flat rate, but forcing us into a flat rate that is across government would be a disaster for us. b. We received the following comment from our state's Department of Education: We want the ability to negotiate a rate that works for us. In the past, the federal government has been willing to lock into a multi-year rate when the rate is high and we trade for a lower rate for multiple years. The federal government has not been willing to negotiate multi-year rates when the rate is low. We do not want a flat rate. c. The following comment was provided by our SWCAP preparer: Assuming that someone can make the math compute, it would be much less work preparing the SWCAP once every four years, instead of every year. One concern is that the Section I roll forward adjustments might be too large because they would be based on the differences between the actual costs of fiscal years that are four years apart. Another concern is that the Section II "Reconciliation of Retained Earnings Balance to Federal Guidelines" schedules would still have to be prepared on a yearly basis to accurately track excessive retained earnings balances.
• When federal grants are reimbursable grants, agencies are able to negotiate a cooperative agreement for indirect costs associated with their grants. This method has proven to be effective. • There is a lot of manpower and administrative burden that is created by continually adjusting and recalculating the indirect cost rate. From an efficiency perspective, it makes good use of state resources if a mandatory flat rate is set. Secondly, it is not recommended to extend the time period for the set rate any longer than 4 years. In addition, an adjustment for extenuating circumstances should be allowed. It may appear that the 4 year rate would be tied to the political climate at the time it is set, and could also appear to be a partisan agreement made and not an agreement that is mutually beneficial to the states and the grantor. Allowing a state to petition for an adjustment should be a consideration. • Yes, a flat rate is workable. A review of the history of indirect cost rates should be taken into consideration and perhaps a 5-year average

used to determine the flat rate. • If OMB mandates a flat rate, it would not be as accurate as the current rate. The current rate uses a variety of solutions to the problem, but it is still the best method to assign a weighting method to the various factors. • It is possible that there could be a slight reduction in indirect cost rate recovery as a result of less frequent IDC calculation but the administrative cost of preparing the IDC proposal outweighs the reduction in IDC recovery. • Preparation of Indirect Cost Rate Proposals (ICRPs) does not affect some agencies, but it does provide a standard cost rate to use in calculating a direct cost approach. The cost rate would not be that effective.

Other General Comments

Comment
We received the following additional comments to the Federal Register notice from the state agencies noted: • <u>Department of Education</u> – This is generally well-intended and moving in the right direction for us, but as always, the devil is in the details. We believe these adjustments would generally be beneficial and would, in fact, reduce some burdens for us. These are a few comments and questions: 1) (B5) We like the general concept of being able to bill administration as a direct cost, but the level of detail in this proposal isn't enough to know what exactly is happening. This could be good or bad depending on the details. 2) (B5) We like the general concept of being able to purchase equipment/IT as a direct cost. 3) (C3, C4) Moving to a 90-day notice on funding opportunities is unnecessary bureaucracy, as is moving to a standard notice format. This would be an example of being well-intentioned, but working a little too hard at it. We want a net reduction of burden – not a net zero by adding things while you take others away. • <u>Department of Human Services</u> – Overall, the lack of detail in this document is of concern. Changes here may be in contradiction to specific requirements or agreements with federal agencies. If these are not investigated and changes made or agreed upon at the federal agency level, these proposed changes may be moot. 1) (C4) Until they are specific about what "risks" they believe exist or come up with a plan based on the pilots, it is all just speculation. • <u>Department of Public Defense (DPD)</u> – We have reviewed the proposals and are not concerned from DPD perspective. We do not normally request reimbursements for indirect costs. The other topics seem to be headed in the right direction. Single Audit Act changes may be a step in the right direction along with fewer reporting requirements. • <u>Workforce Development</u> – 1) (A1) "Flat rate as opposed to negotiated rates"…It appears that this process could result in one of two outcomes. Either insufficient funding to provide proper oversight of federal programs, or the possibility of inflated indirect rates that result in an increase of wasted

resources. We would be concerned with how a "discount" is determined. Discounted flat rates would still have to be something where the entity could go back and negotiate a higher flat rate, by providing documentation to prove that the rate is not sufficient to cover an entity's overhead. Discussion would also have to be made regarding how to handle any under or over-recoveries at the end of each entity's fiscal year.

2) (A2) "Exploring alternatives to time and study reporting"…The federal agencies and grantees would be better served if more cost pooling of direct program overhead funds available for similar functions/programs were allowed. Something similar to how the WIA Administrative funds are combined, yet combining the program staffing and overhead costs into a pool as well. Meeting performance requirements should far outweigh the ability to cost allocate the overhead expenditures attributable to any one particular program. So long as negotiated performance standards for each individual program have been met (including the number of clients served and acceptable outcomes or positive terminations) pooling the overhead resources should be allowable and prorated to each individual program based on the ratio of direct service dollars expended…or some other negotiated method of distribution of those costs.
3) (A3) All other reform ideas appear to be acceptable and of benefit to the federal government and grantees.
4) (A4) Clearer definitions of how to handle mass severance/early retirement incentive programs. There does not appear to be uniform understanding at the federal level as to how that should be handled from a cost allocation perspective. There needs to be a policy more consistently treated by all agencies.

If the high risk ceiling is increased for single audits, then there needs to be a higher emphasis placed on financial and program monitoring performed on those entities that do not meet the new requirements. The single audit should not only focus more effort at reviewing high risk programs, but also ensuring that subcontractors that will not face a single audit have been sufficiently monitored by the prime recipient.

Uniform determination of what constitutes materiality when it comes to an amount of cost that should be questioned.