

## **PART 1 – BACKGROUND, PURPOSE, AND APPLICABILITY**

### **BACKGROUND**

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments that administer Federal financial assistance programs. In 1985, the Office of Management and Budget (OMB) issued OMB Circular A-128, “Audits of State and Local Governments,” to provide implementing guidance. In 1990, OMB administratively extended the single audit process to nonprofit organizations by issuing OMB Circular A-133, “Audits of Institutions of Higher Education and Other Non-Profit Organizations.” On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC Chapter 75). The 1996 Amendments extended the statutory audit requirement to nonprofit organizations and substantially revised various provisions of the 1984 Act.

On June 30, 1997, OMB issued revisions to OMB Circular A-133 (62 FR 35278) to implement the 1996 Amendments, extend the circular’s coverage to States, local governments, and Indian tribal governments, and rescind OMB Circular A-128. The 1996 Amendments required the Director, OMB, to periodically review the audit threshold. On June 27, 2003, OMB amended OMB Circular A-133 (68 FR 38401) to increase the audit threshold to an aggregate expenditure of \$500,000 in Federal funds and to make changes in the thresholds for cognizant and oversight agencies. Those changes took effect for fiscal years ending after December 31, 2003. OMB further amended the circular on June 26, 2007 (72 FR 35080) to (1) update internal control terminology and related definitions and (2) simplify the auditee reporting package submission requirement.

On December 26, 2013, OMB Circular A-133 was superseded by the issuance of 2 CFR part 200, subpart F. Among other things, those changes increased the audit threshold to \$750,000 for auditee fiscal years beginning on or after December 26, 2014 and made changes to the major program determination process. The Compliance Supplement (Supplement) is based on the requirements of the 1996 Amendments and 2 CFR part 200, subpart F, which provide for the issuance of a compliance supplement to assist auditors in performing the required audits.

This document serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without the Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing the Supplement is a more efficient and cost-effective approach to performing this research. For the programs contained herein, the Supplement provides a source of information for auditors to understand the Federal program’s objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

2 CFR part 200, subpart F, provides that Federal agencies are responsible for annually informing OMB of any updates needed to the Supplement. This responsibility includes ensuring that program objectives, procedures, and compliance requirements (including statutory and regulatory citations), noncompliance with which could have a direct and material effect on these individual Federal programs, are submitted to OMB for inclusion in the Supplement, and that agencies keep that information current. Parts 4 and 5 of the Supplement provide a stand-alone section for each program/cluster included in the Supplement, which contains program objectives, program procedures, and compliance requirements. For some programs, a separate section (IV, “Other Information”) also is included to communicate additional information concerning the program. For example, when a program allows funds to be transferred to another program, the “Other Information” section provides guidance on how those funds are to be treated on the Schedule of Expenditures of Federal Awards and in Type A program determinations. See Appendix IV to the Supplement for a list of programs that contain this section.

The Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. For single audits, the Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

Throughout the Supplement, the word “must,” when used in conjunction with auditor responsibilities, means that the auditor is required to do what the statement indicates. Use of the term “should,” when addressing auditor responsibilities, indicates a recommended action or approach. See Part 3 of the Supplement for use of terminology in that Part, which addresses compliance requirements for auditees, as well as auditor responsibilities.

## **PURPOSE AND APPLICABILITY (Part 1)**

### **Purpose**

This 2018 Compliance Supplement adds, deletes, and modifies prior Supplement sections as usual. However, it is unlike previous annual updates to the Supplement in that it only modifies sections of the 2017 Supplement that were in need of significant revision. Sections without revisions from the 2017 Supplement were not copied into this 2018 Supplement. Therefore, auditors must use this 2018 Supplement and the 2017 Supplement together to perform the audit for the periods the 2018 Supplement is effective.

This 2018 Supplement is effective for audits of fiscal years beginning after June 30, 2017. The Table of Contents of this 2018 Supplement describes where it adds, deletes, or supersedes sections in the 2017 Supplement. The portions of the 2017 Supplement that were not superseded or deleted, continue to be effective for audits of fiscal years beginning after June 30, 2017.

2 CFR part 200, subpart F, describes the non-Federal entity's responsibilities for managing Federal assistance programs (2 CFR section 200.508) and the auditor's responsibility with respect to the scope of audit (2 CFR section 200.514). Auditors are required to follow the provisions of 2 CFR part 200, subpart F, and the Supplement.

### **Applicability**

#### *General*

Auditors must consider the Supplement and the referenced laws, regulations, and OMB Circulars/Uniform Guidance (whether codified by Federal agencies in agency regulations or adopted or implemented by other means) in determining the compliance requirements that could have a direct and material effect on the programs included herein. That is, use of the Supplement is mandatory. Accordingly, adherence to the Supplement satisfies the requirements of 2 CFR part 200, subpart F. For program-specific audits performed in accordance with a Federal agency's program-specific audit guide, the auditor must follow such program-specific audit guide. Finally, for major programs not included in the Supplement, the auditor must follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements that could have a direct and material effect on the program.

#### *Update of Requirements*

2 CFR section 200.513(c)(4) provides that Federal agencies are responsible for annually informing OMB of any needed updates to the Supplement. However, auditors must recognize that laws and regulations change periodically and that delays will occur between such changes and revisions to the Supplement. Moreover, auditors must recognize that there may be provisions of grant agreements and contracts that are not specified in law or regulation and, therefore, the specifics of such are not included in the Supplement. For example, the grant agreement may specify a certain matching percentage or set a priority for how funds can be spent (e.g., a requirement to not fund certain size projects). Another example is a Federal agency imposing additional requirements on a recipient (see 2 CFR section 200.207 regarding use of specific award conditions).

Accordingly, the auditor should perform reasonable procedures to ensure that compliance requirements are current and determine whether there are any additional provisions of Federal awards that should be covered by an audit under the 1996 Amendments. Reasonable procedures would be inquiry of non-Federal entity management and review of the Federal awards for programs selected for testing (i.e., major programs).

#### *Safe Harbor Status*

Because the suggested audit procedures were written to be able to apply to many different programs administered by many different entities, they are necessarily general in nature. Auditor judgment is necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether alternative audit procedures are needed. Therefore, the auditor cannot consider the Supplement to be a “safe harbor” for identifying the audit procedures to apply in a particular engagement.

However, the auditor can consider the Supplement a “safe harbor” for identification of compliance requirements to be tested for the programs included herein if, as discussed above, the auditor (1) performs reasonable procedures to ensure that the requirements in the Supplement are current and to determine whether there are any additional provisions of Federal awards that should be covered by an audit under the 1996 Amendments, and (2) updates or augments the requirements contained in the Supplement, as appropriate.

#### *Responsibility for Other Requirements*

Although the focus of the Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors’ attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.