

**APPENDIX VII****OTHER AUDIT ADVISORIES****I. Novel Coronavirus (COVID-19)**

This Supplement does not address COVID-19 implications outside of this advisory due to the limited time between the COVID-19 appropriations and the issuance of this Supplement. This advisory highlights the following areas affecting single audits arising due to COVID-19:

- Background
- Identification of COVID-19 related awards and single audit applicability
- Clusters of programs
- Identification of COVID-19 related awards on the SEFA and SF-SAC
- Identification of compliance requirements for COVID-19 related awards
- Changes to compliance requirements for existing awards due to additional COVID-19 funding
- COVID-19 related OMB memoranda
- Responsibilities for informing subrecipients
- Identification of COVID-19 related awards in audit findings
- Single audit due dates

OMB is working with federal agencies to identify the needs for additional audit guidance for new COVID-19 related programs and existing programs with compliance requirement changes and plans to publish an addendum to this Supplement in the fall of 2020. The addendum will be posted to the OMB Management website (<https://www.whitehouse.gov/omb/management/office-federal-financial-management/>) under the heading of Grants Management.

*Background*

The Coronavirus crisis has adversely impacted many recipient's operations in March 2020. As of the date of this Supplement, Congress made appropriations under the following Acts to address the COVID-19 pandemic:

- Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (P. L. 116-123)
- Families First Coronavirus Response Act; P.L. 116-127)
- Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (P.L. 116-136)
- Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139)

As the pandemic continues, auditors should be alert to additional actions by Congress after the date of this Supplement.

*Identification of COVID-19 related awards and single audit applicability*

Federal agencies may have incorporated COVID-19 funding into an existing program and CFDA number or set up a separate COVID-19 program with a unique CFDA number. Federal agencies

are required to specifically identify COVID-19 awards, regardless of whether the funding is provided under a new or existing CFDA number. However, due to the crisis caused by the COVID-19 pandemic and the need to respond quickly, in some cases cash was sent to non-federal entities without application or CFDA number. The non-federal entity was required to either agree to the terms and conditions or return the funds.

When COVID-19 funds are subawarded from an existing program, the information furnished to subrecipients should distinguish the subawards of incremental COVID-19 funds from non-COVID-19 subawards under the existing program.

In order to assist recipients and auditors in the identification of all the COVID-19 funds and their related program CFDA numbers, OMB has published a listing of the COVID-19 programs along with their CFDA numbers in the following link under “Guidance, Policies and Resources.” An asterisk (\*) by the CFDA number denotes a new CFDA number.

<https://www.cfo.gov/financial-assistance/>

### *Clusters of programs*

While OMB plans to issue an addendum to this Supplement to include certain new COVID-19 related programs, as well as certain changes to existing programs due to COVID-19 funding, such addendum will not add any new clusters of programs to those listed in Part 5 of this Supplement, nor will it revise the composition of any existing clusters listed in Part 5.

### *Identification of COVID-19 related awards on the SEFA and SF-SAC*

As described in 2 CFR section 200.510(b), auditees must complete the SEFA and include CFDA numbers federal awards and subawards. To maximize the transparency and accountability of COVID-19 related award expenditures, non-federal entities should separately identify COVID-19 expenditures on the SEFA and SF-SAC. This includes the new COVID-19 only programs. This may be accomplished by identifying COVID-19 expenditures on the:

- SEFA - On a separate line by CFDA number with “COVID-19” as a prefix to the program name. Example:
  - COVID-19 - Temporary Assistance for Needy Families – 93.558 - \$1,000,000
  - Temporary Assistance for Needy Families – 93.558 - \$3,000,000
  - Total - Temporary Assistance for Needy Families – 93.558 - \$4,000,000
  
- SF-SAC - On a separate row by CFDA number with “COVID-19” as the first characters in Part II, Item 1c, Additional Award Information. Example:

Row Number (auto-generated)	CFDA #		Additional Award Identification <sup>3</sup>	Federal Program Name	Amount Expended	Cluster Name	Federal Program Total <sup>4</sup> (auto-generated)	Cluster Total <sup>5</sup> (auto-generated)
	Federal Awarding Agency Prefix <sup>1</sup>	CFDA Three-Digit Extension <sup>2</sup>						
					(\$)		(\$)	(\$)
1	93	558		TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$3,000,000.00		\$4,000,000.00	
2	93	558	COVID-19	COVID-19 - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$1,000,000.00		\$4,000,000.00	
Total Federal Awards Expended =					\$4,000,000.00			

*Identification of compliance requirements for COVID-19 related awards*

Federal awarding agencies are responsible for identifying COVID-19 awards and communicating the applicable compliance requirements to the recipient. Similarly, pass-through entities are responsible for identifying COVID-19 awards and communicating the applicable requirements to their subrecipients. Normally this information would be in the award terms and conditions. However, for COVID-19 related awards, the compliance requirements may have been communicated through an agency website and the compliance requirements may have been modified or compliance requirements not included in original terms and conditions may have been added.

Due to the timing of the issuance, this Supplement does not include new COVID-19 related programs or information on modified compliance requirements relevant to the types of compliance requirements in Part 3 that are unique to COVID-19 for existing programs. Procedures to identify the compliance requirements depend on the type of funding.

OMB is planning to issue an Addendum to the Supplement for some COVID-19 programs in the fall. Thus, in addition to the procedures in Part 7, the auditor must check the OMB website under Office of Federal Financial Management for the expected fall addendum to this Supplement. For new COVID-19 related programs not included in the fall addendum, the auditor must use the framework provided by Part 7 of this Supplement. Part 7 includes procedures to determine which of the compliance requirements to test. Reports issued prior to the publication of the addendum are not required to adhere to the requirements in addendum.

For existing programs with incremental COVID-19 funding, the auditor must use the framework outlined in Part 1 of this Supplement to perform reasonable procedures to ensure that the compliance requirements identified as subject to audit (compliance requirements marked “Yes” in Part 2 (Matrix of Compliance Requirements for programs included in this Supplement) are current. These reasonable procedures would be inquiry of the non-federal entity’s management about communications from federal agencies modifying requirements and a review of any updated terms and conditions. Auditors should be alert that the original terms and conditions may have been modified to include additional compliance requirements not included in original

terms and conditions or the types of compliance requirements marked “Yes” in Part 2 (Matrix of Compliance Requirements). For example, in addition to the original types of requirements identified in the Matrix of Compliance Requirements as subject to audit, the COVID-19 funding may also require the “Reporting” or “Subrecipient Monitoring” compliance areas to be subject to audit.

Documentation of the procedures performed to identify the compliance requirements is important.

*Changes to compliance requirements for existing awards due to additional COVID-19 funding*

Some federal agencies made changes to existing programs which did not receive additional COVID-19 funding in response to the pandemic environment. Examples include the Student Financial Assistance and Child Nutrition clusters. Auditors should be alert that the program information included in this Supplement may not have been modified.

*COVID-19 Related OMB memoranda*

The Office of Management and Budget, Office of Federal Financial Management (OFFM) issued the four following memoranda to federal agencies

(<https://www.whitehouse.gov/omb/information-for-agencies/memoranda/>):

- OMB M-20-11, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19), March 9, 2020
- OMB M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, March 19, 2020
- OMB M-20-20, Repurposing Existing Federal Financial Assistance Programs and Awards to Support the Emergency Response to the Novel Coronavirus (COVID-19), April 9, 2020
- OMB M-20-26, Extension of Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, June 18, 2020.

In the four memoranda, OMB identified several actions to relieve short-term administrative, financial management, and audit requirements under the Uniform Guidance without compromise to the grantee accountability requirements. They provided class exceptions in certain areas that the agencies can provide to its recipients, in accordance with 2 CFR section 200.102, Exceptions. Note that federal agencies can select the specific areas that they provide relief to their recipients. The flexibilities included in M-20-17 and M-20-20 expired on June 16, 2020, those in M-20-11 expired on July 26, and those in M-20-26 expire on September 30, 2020.

### *Responsibilities for informing subrecipients*

Pass-through entities agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, CFDA number, and amount of COVID-19 funds. When COVID-19 funds are subawarded for an existing program, the information furnished to subrecipients should distinguish the subawards of incremental COVID-19 funds from regular subawards under the existing program.

This information is needed to allow the pass-through entity to properly monitor subrecipient expenditures of COVID-19 funds, as well as for oversight by the federal awarding agencies, federal Offices of Inspector General, and the Government Accountability Office.

### *Identification of COVID-19 related awards in audit findings*

Consistent with identifying COVID-19 expenditures on the SEFA, auditors should include the COVID-19 identification for audit findings that are applicable to COVID 19 new or existing programs.

### *Single Audit due dates*

Although M-20-11 (item 11) and M-20-17 (item 13) provide some extension for submission of single audit reporting packages for recipients and subrecipients impacted by COVID-19, both of these memoranda were rescinded with M-20-26 (June 18, 2020) and thus there is no extension for single audits for fiscal years ending after December 31, 2019.

## **II. Effect of Changes to Compliance Requirements and Other Clusters**

### *Removal of Compliance Requirement from Part 2 Matrix*

In any instance in which a compliance requirement has been removed from a program/cluster, as shown in the Part 2 matrix, if there was an audit finding related to that compliance requirement in an audit conducted using the prior year's Supplement, that finding must continue to be reported in the summary schedule of prior audit findings and considered in the major program determination under 2 CFR section 200.518. The procedures to assess the reasonableness of the summary schedule of prior year audit findings must include all prior audit findings included in the summary schedule, regardless of whether the current Part 2 matrix identified a requirement subject to audit. For example, if there was an audit finding relating to subrecipient monitoring in the prior year but the current year Part 2 matrix identified "M. Subrecipient Monitoring" as not subject to audit with a "No," the auditor's procedures to determine the reasonableness of the summary schedule of prior audit findings must include subrecipient monitoring. In any instance in which a compliance requirement was added to a program/cluster in the current year's Supplement, auditors are not expected to have tested for that requirement under the prior year's audit. This includes correction of an error, if any, as identified in Appendix V of the Supplement.

### *Addition of a New Program to an Other Cluster*

One of the criteria for an “other cluster” to be considered a low-risk Type A program is that it must have been audited as a major program in at least one of the two most recent audit periods (“2-year look back” under 2 CFR section 200.518(c)(1)). In the year that this Supplement adds a new program to another cluster listed in Part 5, the determination of whether the resulting other cluster meets the 2-year look back criterion requires additional consideration. During that year, the other cluster cannot qualify as having been audited as a major program in one of the two most recent audit periods unless the auditee’s current-year expenditures for the newly added program were less than or equal to twenty-five percent (0.25) of the Type A threshold, or all of the programs included in the resulting other cluster met the “2-year look back” criterion. The additional criteria in 2 CFR section 200.518(c) must also be evaluated by the auditor to determine if the other cluster can be considered a low-risk Type A program in the current year.

In years after this Supplement adds a program to another cluster, such addition in a prior year does not require additional consideration for the two-year look back criterion.

The following examples are intended to illustrate consideration of the addition of a new program to another cluster. They are illustrative only and not based on the contents of the current Supplement.

#### **Background for Examples:**

Type A threshold \$750,000.

Human Services existing other cluster (93.123, 93.125, and 93.127) was audited in 2015 with no audit findings.

Part 5 of the 2017 Compliance Supplement added CFDA 93.129 to form the new other cluster with the following federal awards expended in 2017:

93.123: \$ 500,000

93.125: \$ 300,000

93.127: \$ 400,000

93.129: \$ 300,000

Considerations for 2017 major program determination using these facts:

#### **Example 1**

The Human Services cluster was audited in 2015. However, the auditee’s current year expenditures for newly added CFDA 93.129 exceed 0.25 of the Type A threshold of \$750,000 or \$187,500; therefore, the resulting other cluster fails the 2-year look back criterion and cannot be considered a low-risk Type A program in 2017.

If, however, the auditee's expenditures for newly added CFDA 93.129 were equal to or less than \$187,500, the other cluster would pass the 2-year look back criterion and could be considered to have been audited as a major program in one of the two prior years.

#### Example 2

The Human Services cluster was audited in 2015. The newly added program CFDA 93.129 was audited in 2016. If both the cluster and the newly added program met all criteria in 2 CFR section 200.518(c) to be considered low-risk programs for 2017, the other cluster would be a low-risk Type A program in 2017.

### III. Due Date for Submission of Audit Reports and Low-Risk Auditee Criteria

As provided in 2 CFR part 200, subpart F (2 CFR section 200.520), in order to meet the criteria for a low-risk auditee in the current year, the two prior years' audits must have met the specified criteria, including report submission to the Federal Audit Clearinghouse (FAC) by the due date.

The auditor may consider using the following steps to identify FAC submissions that do not meet the due date.

#### *Suggested Steps*

1. Inquire of entity management and review available prior-year financial reports and audits to ascertain if the entity had federal awards expended of \$750,000, in the prior two audit periods and, therefore, was required to have an audit under the uniform guidance and file with the FAC.
2. If the entity was below the \$750,000 threshold in either of the prior two audit periods, and an audit was not required under the uniform guidance obtain written representation from management to this fact and no further audit procedures are necessary as the entity does not qualify as a low-risk auditee.
3. If a prior-year audit was conducted, obtain a copy of the data collection form (Form SF-SAC) and the reporting package.
  - a. Calculate the "Nine Month Due Date" to file with the FAC as the date 9 months after the end of the audit period. For example, for audit periods ending June 30, 2019, the audit report would be due March 31, 2020.
  - b. OMB M-20-26 dated June 18, 2020, Appendix A, item 2, revised the extensions originally provided in OMB M-20-17 beyond the normal Nine Month Due Date for entities that had not filed by March 19, 2020:
    - A non-federal entity with a normal due date of March 31, 2020 through June 30, 2020, inclusive, a six (6) month extension. For example, an entity with a fiscal year end of September 30, 2019, the normal due date of June 30, 2020 is extended to December 31, 2020.

- A non-federal entity with a normal due of July 31, 2020 through September 30, 2020, inclusive, a three (3) month extension. For example, an entity with a fiscal year end of December 31, 2019 the normal due date of September 30, 2020 is extended to December 31, 2020.

Auditees that filed after the normal due date but within the period of extension qualify as “low-risk auditee” under the criteria of 2 CFR section 200.520(a) – Criteria for a low-risk auditee if they met all other low-risk auditee criteria. Auditees should maintain documentation of the reason for the delayed filing.

- c. Access the FAC web page at <https://facweb.census.gov/>.
- Select the “Find Audit Information” option and using the “Federal Audit Clearinghouse IMS” and “Search for Single Audits” options for the audit year in question, locate the FAC record for the entity. Verify correct record by comparing both the entity name and Entity Identification Number (EIN) number from the entity’s copy of the SF-SAC to the FAC web page.
  - For this record, located on the FAC web page, compare the “Date Received” to the Nine Month Due Date to determine if the due date was met.

If the entity was not in compliance with the Nine Month Due Date or Extended Due Date (if applicable) or did not submit the required audit to the FAC for either of the prior two audit periods, then the entity does not qualify as a low-risk auditee.

4. Contact the FAC at [govs.fac@census.gov](mailto:govs.fac@census.gov) or 866 -306-8799 if additional information is needed on using the FAC website or determining the date the FAC accepted the report submission as complete.

#### **IV. Treatment of National Science Foundation and National Institutes of Health Awards**

##### *National Science Foundation*

Effective for proposals due on or after January 14, 2013, all awards issued by the National Science Foundation (NSF) meet the definition of “Research and Development” at 2 CFR section 200.87. As such, auditees must identify NSF awards as part of the R&D cluster on the Schedule of Expenditures of Federal Awards (SEFA) and the auditor must use the Research and Development cluster in Part 5 when testing any of those awards. NSF recognizes that some awards may have another classification for purposes of reimbursement of indirect costs. The auditor is not required to report this difference in treatment (i.e., the award is classified as R&D for 2 CFR part 200, subpart F purposes, but non-research for indirect cost rate purposes), unless the auditee is charging indirect costs at a rate other than the rate(s) specified in the award document(s).

There will be a transition period (probably 4 years) where SEFAs will include both awards funded previous to this change in approach and awards made subsequent to it. Previously funded awards may be identified on the SEFA at the university's discretion, but awards resulting from proposals due on or after January 14, 2013 must be included in the SEFA as part of the R&D cluster. This guidance complies with the NSF Proposal and Award Policies and Procedures Guide (PAPPG), the current and prior versions of which may be found at <http://www.nsf.gov/bfa/dias/policy/>.

#### *National Institutes of Health*

Effective for grants and cooperative agreements with budget periods beginning on or after December 26, 2014, and awards that receive supplemental funding on or after December 26, 2014, all awards issued by the National Institutes of Health (NIH) meet the definition of "Research and Development" at 45 CFR section 75.2. As such, auditees must identify NIH awards as part of the R&D cluster on the SEFA, and the auditor must use the Research and Development cluster in Part 5 when testing any of those awards. NIH recognizes that some awards may have another classification for purposes of reimbursement of indirect costs. The auditor is not required to report this disconnect (i.e., the award is classified as R&D for 2 CFR part 200, subpart F, purposes, but non-research for indirect cost rate purposes), unless the auditee is charging indirect costs at a rate other than the rate(s) specified in the award document(s). (See the NIH Grants Policy Statement, the current and prior versions of which may be found at <http://grants.nih.gov/grants/policy/policy.htm>.)

#### **V. Exceptions to the Guidance in 2 CFR Part 200**

OMB does not maintain a complete listing of approved agency exceptions to the uniform guidance in 2 CFR part 200

For programs included in the Supplement, the auditor should review the program supplement and, as necessary, agency regulations adopting/implementing the OMB uniform guidance in 2 CFR part 200 to determine if there is any exception related to the compliance requirements that apply to the program. For programs not included in the Supplement that are audited using Part 7, the auditor should review agency regulations adopting/implementing 2 CFR part 200 to determine if an exception applies to the program.

Questions about the agency-level rulemakings that adopt/implement 2 CFR part 200 should be directed to the federal agency key management liaisons specified in Appendix III to the Supplement.

#### **VI. National Defense Authorization Acts (NDAA) of 2017 and 2018**

This guidance is intended to assist auditors with reporting expectations related to the purchase threshold changes in the NDAA 2017 and 2018.

Although the NDAA of 2017 was enacted on December 23, 2016, it has not been codified in the Federal Acquisition Regulations. An official OMB memorandum M-18-18 for the micro purchase threshold provisions has been issued by OMB on June 20, 2018 that clarifies the

effective date for the higher threshold and approval process for the applicable recipients requesting a micro-purchase threshold higher than \$10,000. Despite the memo, there is some confusion as whether the Act was effective on December 23, 2016, or whether only effective once codified in the Federal Acquisition Regulations. Therefore, auditors are not expected to develop audit findings for covered entities that have implemented increased purchase thresholds after December 23, 2016 if the entity documented the decision in its internal procurement policies.

The provisions of NDAA of 2018 will not be effective until they are codified in the Federal Acquisition Regulations (proposed FAR rules were published on October 02, 2019, 84 FR 52420). The FAR Rules at 48 CFR subpart 2.1 were finalized on July 2, 2020 (85 FR 40060, 85 FR 40064), with the effective date of August 31, 2020. However, in accordance with OMB M18-18, early implementation is allowed if the grant recipient requests and receives approval from the federal agencies. However, there is some confusion from the grant community whether the language in the memo allows grant recipients to use of the higher thresholds without an official approval from the federal cognizant agency for indirect cost rates. Therefore, auditors are not expected to develop audit findings for grant recipients that have implemented increased purchase thresholds after June 20, 2018, as long as the entity documented the decision in its internal procurement policies.

Additional information is provided in Part 3.I, “Procurement and Suspension and Debarment” of the 2020 Supplement.

## **VII. Audit Sampling**

Certain suggested audit procedures in this *Compliance Supplement* lend themselves to testing using sampling. Auditors are reminded that when performing an audit under generally accepted auditing standards (GAAS), including single audits, that AU-C section 530, *Audit Sampling*, <https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/au-c-00530.pdf>, provides auditor requirements and guidance related to an auditor’s use of sampling. Failure to follow the standards, including the requirement to determine sample sizes that are sufficient to reduce sampling risk to an acceptably low level, may result in the audit being considered nonconforming by the federal cognizant agency for audit as part of a quality control review.

The guidance in AU-C section 530 primarily addresses sampling considerations when performing a financial statement audit. The AICPA Audit Guide, *Government Auditing Standards and Single Audits*, contains auditor guidance for, among other things, designing an audit approach that includes audit sampling to achieve both compliance and internal control over compliance related audit objectives in a single audit or program-specific audit performed in accordance with the Uniform Guidance. It also includes suggested minimum sample sizes for tests of controls over compliance and tests of compliance based on certain engagement-specific inputs.

Another AICPA Audit Guide, *Audit Sampling*, also provides additional guidance and technical background, which forms the basis of the practical application of audit sampling to Uniform Guidance audits.