United States Department of Agriculture
Food and Consumer Service
Mountain Plains Region
1244 Speer Boulevard
Denver, CO
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Reply to Attn of: SP 00-20
CACFP-619
SFSP-409

MAY 12 2000

Subject: State Monitoring of Subrecipient Audits

To: STATE AGENCY DIRECTORS (Child Nutrition Programs) - Colorado ED, Colorado DPHE, Colorado HS, Iowa, Kansas, Missouri ED, Missouri DH, Montana OPI, Montana DPHHS, Nebraska ED, Nebraska SS, North Dakota, South Dakota, Utah, Wyoming ED and Wyoming DHSS

When the State agency (SA) passes money through to a local operating agency, the SA becomes responsible for tracking expenditures of Federal funding through reported information from the local operating agency. Because these "pass-through", SAs are uniquely in the position to know which local agencies are the recipients of the Federal funding for our programs. They are responsible for ensuring the Single Audit requirements are met for those agencies and are responsible for ensuring that follow-up resulting in corrective action occurs. SAs are required to maintain this level of oversight even though there may be other agencies in the State responsible for coordinating Single Audit performance.

In recent years, we have become concerned over the content of Single Audits and have noted problems that are nearly universal to all of our SAs. One problem is the oversight that our SAs maintain over the Single Audits performed of their subgrantees. These problems include:

- errors in tracking whether subrecipient Single Audits are being performed for all local recipients of Federal funding requiring such an audit;
- errors in ensuring that corrective action is properly being taken by local agencies; and

- errors in reporting the level of funding provided to (or expended by) local agencies.

In a few States, the problems noted in Single Audit reports have approached severe levels. In more than one situation, the auditor performing the State level Single audit, has indicated that the SA may not even be aware of all of the local operators (e.g., CACFP providers) subject to Single Audit requirements.

Recently implemented changes to the Single Audit Act have also added to the problem. Local agencies receiving federal funds must now consider their expenditure of funds rather than their receipt of Federal funds. This change, while not significant for the Child Nutrition Programs when determining the level of coverage, apparently surprised many State and local agencies. As a result the National Office is seeing a rash of findings where State and local agencies are failing to track local agency funding via reported expenditures.

Ideally, these issues are addressed in the audit management process, but the repeated nature of the problems suggests the need to raise the visibility of corrective actions by highlighting your efforts to comply with the requirements. Therefore, during future management evaluations, we will be reviewing the subrecipient audit system in each state.

To ensure there are no misunderstandings of the audit requirements, we are attaching a copy of Questions and Answers on 7 CFR Part 3052 (**Audits of States, Local Governments, and Non-Profit Organizations**).

If you have any questions, please contact our office.

Stella Nash

STELLA NASH
Acting Regional Director
Child Nutrition Programs

Attachment

Questions and Answers on 7 CFR Part 3052 (Audits of States, Local Governments, and Non-Profit Organizations), Second Edition (July 1999)

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NOTE TO REVIEWERS:

1. While most of the questions and answers in this document discuss matters of general interest, certain items are program-specific or otherwise mention individual programs. All such items are identified below in order to expedite your review.

Child Nutrition Programs.

Questions 11, 13, 17, 18, 19, 20, 25, 29, 35, 41, 45, 54, 64, 66, 71, 72, 73, and 76; Exhibits A through E.

Food Distribution Programs.

Questions 13, 14, 15, 45, 68, 71, and 72; Exhibits A and E.

Food Stamp Program.

Questions 12 and 45.

Supplemental Food Programs.

Questions 16, 45, 68, and 69.

2. This document amends and enhances the version we issued in May 1998. We have added 25 new questions and five new exhibits, and revised 13 questions and one exhibit that originally appeared in the May 1998 edition. The remaining material in this document is unchanged from the May 1998 edition.

New Items: Questions 14, 15, 16, 18, 19, 20, 25, 28, 29, 30, 35, 42, 50, 52, 53, 54, 59, 60, 61, 62, 71, 72, 73, 74, 78, Exhibits B through F.

Revised Items: Questions 4, 12, 17, 27, 41, 49, 51, 56, 58, 65, 67, 68, 77, Exhibit A.

Exhibit F identifies the new and revised material and cross-references questions to their counterparts in the May 1998 edition.

Questions and Answers on 7 CFR Part 3052 (Audits of States, Local Governments, and Non-Profit Organizations), Second Edition (July 1999)

Subpart A -- General:

Sec. 3052.100 - Purpose.

1. Q. What is the relationship between 7 CFR Part 3052 and the audit requirements at 7 CFR Parts 3015 and 3051?

A. Part 3052 implements the revised OMB Circular A-133, published June 30, 1997. Part 3015, Subpart I previously implemented OMB Circular A-128 (Audits of State and Local Governments) and Part 3051 previously implemented the former (1990) version of A-133 (Audits of Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations). The new A-133 replaced both A-128 and the former version of A-133. Likewise, USDA has repealed Part 3015, Subpart I and Part 3051. Part 3052 is now the sole departmental regulation on audit requirements for State and local governments and not-for-profit organizations (NFPOs) operating USDA programs. These entities are referred to collectively as "non-federal entities."

Subpart B -- Audits:

Sec. 3052.200 - Audit Requirements.

2. Q. What are the audit requirements under Part 3052?

A. A State or local government or a NFPO has an audit requirement for each of its fiscal years, beginning on or after July 1, 1996, in which it expended Federal awards totaling $300,000 or more. (7 CFR 3052.200(a)) An exception is made for certain non-federal entities that obtain biennial (two-year) audits. (7 CFR 3052.220) (See questions 21 through 24, below, for additional information on biennial audit cycles.)

As a general rule, a non-federal entity can satisfy the requirement only with a single (organization-wide) audit. However, an entity that operates

only one Federal program may meet the requirement with a program-specific audit of the one program. (See also questions 45 through 49, below.)

3. Q. Why did the Federal Government raise the audit requirement dollar threshold to $300,000?

A. Research by the General Accounting Office (GAO) and the President's Council on Integrity and Efficiency (PCIE) suggested that the Federal Government's investment and related risk were disproportionately concentrated in the largest grantee and subgrantee organizations. In addition, the former $25,000 threshold had been set in 1984; an audit of that amount of Federal expenditures was no longer viewed as a reasonable condition for a small organization's receipt of Federal awards. Accordingly, the Congress made a business decision to target limited Federal audit resources to those entities where the Federal Government's exposure to risk was greatest. Raising the threshold eliminated those cases for which the audit requirement was the most financially and administratively onerous to the grantee or subgrantee, and least cost-effective for the Federal Government.

4. Q. What audit coverage is required for non-federal entities that expended less than $300,000 in a fiscal year?

A. None. Such a non-federal entity has no Federal audit requirement for the applicable fiscal year, and may not charge the cost of any audit to its Federal awards. This includes organization-wide and program-specific audits made in accordance with A-133, financial statement audits made in accordance with generally accepted auditing standards (GAAS), financial or performance audits made under generally accepted government auditing standards (GAGAS), etc. However, the entity's awarding agency (that is, the State agency) remains responsible for monitoring the entity's program operations. Monitoring tools available to State agencies include not only programmatic reviews but also "limited scope audits" arranged and funded by the State agency under 7 CFR 3052.230(b)(2). (For more information on "limited scope audits, see questions 26 through 42, below.)

5. Q. Can a State require its subgrantees to obtain single audits rather than program-specific audits?

A. No. The audit requirement is addressed to each non-federal entity, not to its awarding agencies. The State can, however, seek to influence the decisions of subgrantees eligible to elect program-specific audits by pointing out the advantages of organization-wide audits. (7 CFR 3052.200(c))

6. Q. What arguments can a State use to persuade subgrantees eligible for program-specific audits to obtain organization-wide audits instead?

A. The State agency can point out that a single audit blends a financial statement audit with an audit of programmatic compliance, and grantees and subgrantees may need financial statement audits for reasons of their own. For example, a set of audited financial statements may be a prerequisite for a NFPO to receive funding under its local United Way campaign. Likewise, an underwriter may require audited financial statements as a condition of handling a local government's bond issue. A subgrantee may find a single audit less expensive than obtaining a financial statement audit separately from an A-133 program-specific audit.

7. Q. A State intends to require any subgrantee that expended $300,000 or more in combined federal and State funds to obtain single audits, and any subgrantee that expended at least $100,000 but less than $300,000 in combined Federal and State funds to obtain either a financial audit made under GAGAS or a program-specific audit. Is this allowable under A-133 and Part 3052?

A. A State can make such a requirement, but the resulting audit costs will not always be allowable charges to Federal awards under 7 CFR 3052.230(b)(2). They will be allowable only if the subgrantee had a Federal audit requirement under A-133 and Part 3052. For example a subgrantee that expended $300,000 or more in combined Federal and State funds may have expended less than $300,000 under Federal awards alone, and therefore have no Federal audit requirement. In that case, the cost of a single audit that otherwise satisfies the requirements of Part

3052 would nevertheless be unallowable. Likewise, no subgrantee expending at least $100,000 but less than $300,000 in combined Federal and State awards has a Federal audit requirement. No audit cost would be allowable in such a case.

Audit costs ineligible for Federal reimbursement in such a scenario may nevertheless be allowable under State awards.

8. Q. What is the effective date of Part 3052?

A. Part 3052 is effective for audits of non-federal entities' fiscal years beginning on or after July 1, 1996. This is a statutory requirement. (31 U.S.C. 7507)

9. Q. Are there any provisions of Part 3052 that are not immediately effective?

A. Yes, implementation of the following four provisions is not immediately required:

a. Due Date for Audit Reports. The time-frame for submitting the audit report and related items has been shortened from thirteen to nine months after the end of the audited period. However, grantees and subgrantees may phase in this expedited reporting time-frame. It becomes mandatory with the report on the audit of the auditee's first fiscal year that begins on or after July 1, 1998. In other words, the first audit reports for which the new due date will be mandatory will be those which are due not later than March 31, 2000. (7 CFR 3052.320(a))

b. Auditor Selection. If a grantee or subgrantee uses an auditor to prepare an indirect cost rate proposal, the new rules preclude the auditee from using the same auditor to make its A-133 audit for: (1) the base year whose data are used to prepare the indirect cost rate proposal; and (2) any fiscal year in which the auditee uses the resulting indirect cost rate agreement to recover costs under Federal awards and thereby recovers $1 million or more in indirect costs. To minimize the risk of disrupting existing contractual

arrangements for audit services, however, this prohibition becomes mandatory with the selection of auditors to audit the auditee's first fiscal year beginning on or after July 1, 1998. (7 CFR 3052.305(b))

c. Designation of Cognizant Agencies. The new rules provide that any non-federal entity expending more than $25 million annually in Federal awards must have a cognizant agency; and that the Federal awarding agency providing the predominant amount of direct funding to that entity is automatically designated to perform the duties of cognizance. If, however, a State or local government with Federal expenditures at or above that threshold had been specifically assigned a cognizant agency by the OMB (51 F.R. 552 through 562, January 6, 1986), such cognizance assignment shall remain in effect through the entity's fiscal year ending on or after June 30, 2000. (7 CFR 3052.400(a))

d. Risk-Based Identification of Major Programs. Where the old rules called for identifying major programs solely on the basis of their funding levels, the new rules introduce a process that also considers the degree of risk associated with a program. This risk-based procedure is optional, however, for the first A-133 audit a grantee or subgrantee obtains under Part 3052. It is also optional for the first audit obtained thereafter that follows a change of auditors, provided that the auditee does not invoke it more frequently than once every three years. (7 CFR 3052.520(i)) (See questions 75 through 77, below, for more information on the risk-based identification of major programs.)

Sec. 3052.205 - Basis for Determining Federal Awards Expended.

10. Q. Where the old rules spoke of "Federal financial assistance received," Part 3052 is couched in terms of "expenditures of Federal awards." What does the new terminology mean?

A. A grantee's or subgrantee's need for an A-133 audit is now measured in terms of awards "expended" rather than "received" because no Federal award is legally "received" until the non-federal entity has

used it for program purposes. The entity's receipt of any cash, commodities, or other assets transferred by its awarding agency remains conditional until that condition has been met. The grantee or subgrantee meets the condition for cash assistance by incurring expenditures for allowable program costs, and for commodity assistance by using the commodities for program purposes. (7 CFR 3052.205(a))

Cash advances in the hands of a grantee or subgrantee are not considered "awards received" because they have been disbursed to the non-federal entity prior to its having incurred the expenditures that establish its "ownership" of the cash. The awarding agency still "owns" the cash and can recover it if the grantee or subgrantee does not expend it in a timely manner for allowable program costs. Indeed, that is what happens in the grant/subgrant closeout process.

11. Q. Reimbursement payments to schools and institutions operating the Child Nutrition Programs (CNP) are determined according to a performance ("meals-times-rates") formula rather than by strictly reimbursing program costs. How does the concept of "expenditures of Federal awards" apply to them?

A. Reimbursement "earned" by a subgrantee under the CNPs' performance funding formula makes the subgrantee whole for expenditures it has already made to carry out the programs. At the point that the subgrantee submits its monthly claim for reimbursement, the program-related activity has already taken place and the "Federal expenditure" that establishes the subgrantee's entitlement to the reimbursement payment has already been incurred. Accordingly, the amount "expended" by a subgrantee under the CNP in a fiscal year is the amount of reimbursement "earned" during that period.

12. Q. How does this concept of "expenditures of Federal awards" apply to electronic benefits transfer (EBT) payments to States under the Food Stamp Program (FSP)?

A. Under 7 CFR 3052.205(a), "the determination of when an award is expended should be based on <u>when the activity related to the award occurs</u>. Generally, the activity pertains to <u>events that require the non-</u>

Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; ...." (Emphasis added.) The "activity related to the award" that requires the State agency's compliance with FSP regulations includes all stages of the FSP benefits cycle: certification, issuance, and redemption. However, the single **event** in that cycle that creates a claim on the U.S. Treasury for FSP benefits is a household's use of its debit card to charge its benefit account for a food purchase. The dollar amount "expended" for FSP benefits is therefore the amount of EBT sales that took place during the State's fiscal year. A State should report this amount in its Schedule of Expenditures of Federal Awards as expenditures under CFDA 10.551.

This interpretation does not equate "expenditures of Federal awards" with cash disbursements by the State or its agent. Accordingly, it does not authorize a State to draw cash from the U.S. Treasury for FSP EBT benefits before the redemption of these benefits has taken place. Cash draws must be timed to meet a State's **immediate** cash disbursement needs under Federal programs, regardless of when the "expenditures of Federal awards" occur.

13. Q. How does this concept of "expenditures of Federal awards" apply to USDA donated commodities?

A. As noted above, resources provided under a Federal award are considered "expended" when the auditee has carried out the award-related activity. The applicable State level activity is the distribution of commodities to eligible recipient organizations. Commodities distributed are therefore commodities "expended." At the local level, the applicable activity is the delivery of program benefits to eligible persons. Depending on the program, this may entail issuing commodities to households in quantities suitable for meal preparation at home (as in the Emergency Food Assistance Program (TEFAP)) or using the commodities in the preparation of meals to be served on-site (as in the Child Nutrition Programs). Subgrantees have "expended" commodities when they have used them in such ways.

14. Q. A food bank operating TEFAP under a subgrant from a State agency distributes commodities to soup kitchens, food pantries, and other eligible recipient agencies (ERAs) but does not issue them directly to client households. How does the concept of "Federal expenditures" apply to such a case.

A. The food bank in this scenario is a pass-through entity. Its compliance requirements with respect to the commodities entail distributing them to other eligible organizations. Just as the State agency has "expended" the commodities when it has delivered them to the food bank, the food bank has "expended" them once it has delivered them to other ERAs with which it has TEFAP agreements.

15. Q. Two food banks have TEFAP agreements with the State agency but not with each other. Food Bank No. 1 is unable to use TEFAP commodities made available by the State agency, so it obtains authorization from the State agency to transfer them to Food Bank No. 2 under 7 CFR sec. 250.13(a)(1). Food Bank No. 2 then distributes the commodities to food pantries and other ERAs with which it has TEFAP agreements. Which food bank is considered to have "expended" the commodities within the meaning of section 3052.205?

A. Food Bank No. 2 has "expended" the commodities for program purposes because it is a pass-through entity with respect to the ERAs to which it distributed them. Food Bank No. 1 is not a pass-through entity with respect to Food Bank No. 2 because there is no TEFAP agreement establishing such a relationship. A transfer of commodities between two commodity recipient agencies under 7 CFR 250.13(a)(1) does not, by itself, create a Federal assistance relationship between them. Rather, the agency giving up the commodities is relieved of all responsibility for them and has no further interest in them; and the agency receiving the commodities accepts title to and responsibility for them just as if it had received them directly from the State agency. Therefore, the transfer is a constructive return of the commodities to the State agency by Food Bank No. 1 and their constructive redistribution to Food Bank No. 2.

It should be noted, however, that an ERA can have its TEFAP agreement with either the State agency or another ERA. If Food Bank No. 2 had had its TEFAP agreement with Food Bank No. 1 rather than with the State agency, then Food Bank No. 1 would have been a pass-through entity with respect to Food Bank No. 2. In that case, both food banks would have "expended" the commodities for program purposes; Food Bank No. 1 would have passed them through to Food Bank No. 2, and Food Bank No. 2 would have passed them through to other ERAs with which it had TEFAP agreements.

16. Q. Is a WIC local agency's issuance of food benefits to clients considered the "expenditure" of WIC food funds by the local agency?

A. Yes. Departmental regulations at 7 CFR 3016.3 define a "subgrant" as "an award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee." For the reasons given below, we believe the WIC food benefits issued by a local agency comprise "property in lieu of money" passed through to the local agency by the State agency.

Property includes not only the physical possession of tangible assets, but also rights relating to such assets. Issuing food instruments to WIC participants confers such rights upon them. The tangible assets are the supplemental foods prescribed for each participant. Properly issued food instruments authorize the participant to obtain these foods from designated retail outlets. This right to receive an economic benefit is a property right, of which the food instruments are the tangible manifestation.

For this reason, the food instruments themselves have economic value. This fact is underscored by program regulations at 7 CFR 246.12(l), which require each WIC State agency to "...control and provide accountability for the receipt and issuance of supplemental foods and food instruments. The State agency shall ensure that there is secure transportation and storage of unissued food instruments." The preamble to the May 28, 1982 rulemaking that added this provision to the WIC Program Regulations clarified that the State agency's responsibilities under the provision include applying its requirements to

local agencies. Both levels of program management are responsible for the physical security of, control over, and accountability for food instruments. These are substantially the same requirements that apply to the custody and use of cash and other tangible assets. They would be unnecessary if the food instruments did not represent property rights that must be protected.

By authorizing a local agency to issue food instruments to persons the local agency has determined eligible, the State agency places the property rights the food instruments represent under the local agency's control. Issuing food instruments to participants creates obligations against the food component of the State agency's cash grant. The local agency can thus obligate the State agency—and ultimately the Federal Government—for WIC food costs. This process parallels the manner in which the local agency obligates the State agency for WIC administrative costs through transactions such as employing local agency staff.

Compliance requirements relating to the property rights represented by WIC food instruments entail determining applicant eligibility, prescribing supplemental foods for persons enrolled in the program, and providing them with the prescribed food. A local agency complies with these requirements each time it issues food instruments to participants. Therefore, the issuance of food instruments is the local agency's "expenditure" of the property rights the food instruments represent. Accordingly, the value of the issued food instruments is considered in determining whether a local agency's Federal expenditures equal or exceed the $300,000 audit requirements threshold.

Sec. 3052.210 - Subrecipient and Vendor Determinations.

17. Q. Program regulations at 7 CFR 226.8(a) have historically established audit requirements for for-profit institutions operating the Child and Adult Care Food Program (CACFP)(CFDA 10.558). However, 7 CFR 3052.210(e) provides that "the pass-through entity [(that is, the State agency)] is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients.... Methods to ensure compliance for Federal awards made to for-profit subrecipients may

include pre-award audits, monitoring during the contract, and post-award audits." Do these regulations conflict? If so, which one governs?

A. Because 7 CFR 3052.210(e) requires a State to establish procedures for obtaining audit coverage of its for-profit subgrantees, this regulation does override the second sentence of 7 CFR sec. 226.8(a), which sets a Federal requirement that a State agency cause for-profit institutions under its oversight to be audited every two years. On August 13, 1998, the FNS Child Nutrition Division issued a policy statement on the application of 7 CFR 3052.210(e) to for-profit CACFP institutions. This document advised the regional offices that:

"State agencies ... have the authority and responsibility for establishing audit policy for Proprietary Title XIX and Title XX institutions under their oversight with regard to any Federal funds received from USDA. However, any audit policy established by a State agency must not conflict with the authority of both the State agency and USDA to perform, or cause to be performed, audits, reviews, agreed-upon procedures, and other monitoring activities. Additionally, the institutions must comply with the audit requirements of all other Federal departments from which they receive funding.

"We believe that State agencies should be encouraged to continue to require audits of Proprietary Title XIX and Title XX institutions. However, we believe that the threshold for these audits previously established at $25,000 should be raised, given the cost of the audits relative to the benefits. Regardless of the decision made by the State agency with regard to audits of Proprietary Title XIX and Title XX institutions, the regulatory requirements of [7 CFR sec.] 226.6(l) with regard to reviews must be met."

18. Q. Since CACFP proprietary institutions are not under A-133 and Part 3052, can a State agency set a lower dollar audit threshold for them than is required for governments and not-for-profit organizations (NFPOs)?

A. Yes. While we strongly recommend that State agencies continue to require audits of proprietary CACFP institutions, we believe the threshold for these audits, historically set at $25,000, should be raised.

To continue auditing institutions with minimal levels of Federal funding would be an inefficient use of limited Federal program funds.

19. Q. A State agency plans to establish its dollar threshold for audits of proprietary institutions each year on the basis of an annual risk assessment. This first year, the State agency has determined that the high-risk proprietary institutions are those with CACFP earnings in the $30,000 to $100,000 range. Can the State agency require audits only from this class and require none from proprietary institutions over $100,000?

A. Yes. However, this approach makes a proprietary institution's audit requirement in any fiscal year a function of the State agency's annual risk analysis rather than the institution's level of Federal expenditure. The institutions, which are accustomed to audit requirements based on Federal expenditures, may find this procedure confusing. We therefore recommend that the State agency expressly set its criteria for audits of proprietary institutions according to the results of its risk analyses, and communicate that procedure to its subgrantees. Since the risk analysis has already highlighted these institutions, moreover, the State agency should also consider whether targeting them for training and technical assistance may be a more effective use of resources than auditing them.

20. Q. How can State agencies use audits of for-profit institutions required by other awarding agencies?

A. A financial statement audit required by another agency may disclose information about the institution that would not be detected in a CACFP program-specific audit or a programmatic review. It may, for example, disclose the institution's financial solvency, less-then-arm's-length transactions by the institution's management, and other information that would reflect the degree of risk associated with the CACFP's operation at the institution. Such audits may also cover cross-cutting issues, such as internal/management control weaknesses, that affect the CACFP as well as the program(s) administered by the awarding agency that required the audit. On the other hand, program-specific audits of programs other than the CACFP will not provide useful information on the institution's compliance with CACFP requirements.

Sec. 3052.220 - Frequency of Audits.

21. Q. How do the new rules on biennial audit cycles differ from the old?

A. The new rules on biennial audits for governmental grantees and subgrantees are substantially the same as the old ones. For NFPOs, however, the new rules impose greater restrictions on the option to obtain biennial audits. The old rules permitted an NFPO to meet its Federal audit requirement with biennial audits if it also obtained biennial financial statement audits in accordance with GAAS. The new rules allow this practice only if the auditee "had biennial audits for all biennial periods ending between July 1, 1992 and January 1, 1995." An NFPO that meets this condition may retain its biennial audit frequency; however, an NFPO that previously obtained annual audits or has no documented audit history covering the stated "window of opportunity" could not now adopt a biennial audit cycle. (7 CFR 3052.220(b))

This provision is, in effect, a "grandfather clause." Its underlying premise is that annual audits are the norm, but that an NFPO with a documented pattern of obtaining biennial audits under the old rules may be "grandfathered" into a biennial audit cycle under the new rules. The committee report accompanying H.R. 3184, which was enacted as the Single Audit Act Amendments of 1996, expressed this intent as follows: "...subsection (b)(3) preserves nonprofit organizations' rights established under OMB Circular A-133 to, under specified circumstances, have biennial rather than annual audits. However, subsection (b) prohibits other non-Federal entities from adopting biennial audits. Thus, this subsection preserves, but does not extend, the prerogative to have biennial audits." (H.R. Rep. No. 607, 104th Cong., 2nd Sess. 25 (1996))

This policy of "containing" the practice of biennially auditing NFPOs operating Federal programs stems, at least in part, from concern about the timeliness of audit information. Raising the audit requirement threshold to $300,000 eliminated the small program operators whose programmatic violations presented the least financial risk to Federal and State awarding agencies. Violations by a program operator large

enough to require audits under the new rules require more timely detection and correction than a biennial audit cycle provides.

22. Q. If a non-federal entity obtains biennial audits and the effective date of Part 3052 catches it in the middle of a biennial audit cycle, what rules apply?

A. The entity must complete the current audit cycle under the old rules and implement the new rules with its next biennium. The OMB expressed this principle as follows in the preamble to the revised A-133: "OMB interprets the 1996 Amendments to be effective for any biennial periods which begin after June 30, 1996. As with annual audits, the previously applicable Circulars are in effect until this final revision is effective. Therefore, an auditee that conducts biennial audits and has a biennial period beginning on or before June 30, 1996, should apply the provisions of Circular A-128 (for a State or local government) or Circular A-133, issued March 8, 1990 (for a non-profit organization), as applicable. The requirements of this Circular apply to any biennial periods beginning after June 30, 1996." (62 F.R. 35284)(Emphasis added.)

23. Q. How does one apply the $300,000 threshold to a non-federal entity's biennial audit period to determine whether an A-133 audit is required?

A. An audit is required if the entity expended $300,000 or more in Federal awards in one of the two years of the biennial period.

24. Q. When the auditee has a biennial audit cycle, what is the basis for preparing the Schedule of Expenditures of Federal Awards and identifying Type A and Type B programs under 7 CFR 3052.520?

A. The auditor makes these determinations on the basis of total Federal awards expended by the auditee during the biennial period. (See question 75, below, for an explanation of Type A and Type B programs.)

Sec. 3052.225 - Sanctions.

25. Q. What recourse does a State agency have when a subgrantee with an audit requirement under Part 3052 refuses to obtain an acceptable audit?

A. Compliance with the audit requirements of Part 3052 is a condition of receiving Federal awards. "No audit costs may be charged to Federal awards when audits required by [Part 3052] have not been made or have been made but not in accordance with [Part 3052]. In cases of continued inability or unwillingness to have an audit conducted in accordance with [Part 3052, State agencies] shall take appropriate action using sanctions such as:
(a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
(b) Withholding or disallowing [reimbursement for] overhead costs;
(c) Suspending Federal awards until the audit is conducted; or
(d) Terminating the Federal award." (7 CFR 3052.225)

This generic language must be read in conjunction with any program-specific regulations that prescribe sanctions and "due process" leading to their imposition. For example, a State agency aggrieved by a CACFP institution's failure to obtain a required audit would designate the institution "seriously deficient" under 7 CFR sec. 226.6(c) and demand corrective action before invoking 7 CFR sec. 3052.225 (d) to terminate the institution's participation in the CACFP.

Sec. 3052.230 - Audit Costs.

26. Q. State agencies have historically relied on A-128 and A-133 audits to monitor subgrantees' operation of FNS programs. The cost of audits is now unallowable if the auditee is exempted from the A-133 audit requirement under 7 CFR 3052.200(d). What can the State agencies do now?

A. While subgrantees whose expenditures under Federal awards fall below $300,000 no longer have Federal audit requirements, States and other pass-through entities must continue to monitor such subgrantees. Monitoring subgrantees has always been a requirement for State agencies, and the Single Audit Act Amendments of 1996 expressly articulate this requirement. (31 USC 7502(f)(2)(B)) Monitoring tools

in addition to A-128 and A-133 audits have always been available; examples include on-site reviews and subgrantee data analysis. Indeed, program regulations have always required State agencies to make reviews of their subgrantees and in some cases have prescribed the scope and frequency of such reviews. A State agency must marshal its entire arsenal of monitoring resources and use them in ways that provide the most efficient, effective oversight of its subgrantees.

The "limited scope" audits identified at 7 CFR 3052.230(b)(2) comprise one resource in a State agency's monitoring arsenal. The State agency may target them to specific classes of subgrantees, to specific program compliance requirements, etc.

27. Q. How do the "limited scope" audits discussed in section 3052.230(b)(2) differ from "regular" audits?

A. While the word "audit" is used in the statute, it is actually a misnomer. The "limited scope audits" mentioned there and in Part 3052 are actually "**agreed-upon procedures**" engagements.

Agreed-upon procedures belong to a genre of public accounting services known as "attestation." The American Institute of Certified Public Accountants (AICPA) regulates audit practice by publishing Statements on Auditing Standards (SAS), and attestation practice via **Statements on Standards for Attestation Engagements (SSAE).** Attestation statements particularly applicable to the "limited scope audits" outlined in Part 3052 include SSAE 3 (Compliance Attestation) and SSAE 4 (Agreed-Upon Procedures). One can purchase these publications by contacting the AICPA Order Department at 1-800-862-4272. State laws may require that attestations be made only by Certified Public Accountants (CPAs). A CPA who performed both types of services would be addressed as "auditor" when making audits and as "**practitioner**" when performing attestations. An attestation engagement to perform agreed-upon procedures differs from an audit engagement in the following ways:

a. Level of Assurance Given.

An auditor expresses an **opinion**, which is the highest level of assurance a CPA can give. In a financial statement audit, the opinion refers to the presentation of the auditee's financial statements in accordance with GAAP. In an A-133 audit, the auditor also expresses an opinion on whether the auditee has complied in all material respects with the compliance requirements of major Federal programs. The auditor must do enough work to accept the responsibility implicit in the expression of an opinion.

In an agreed-upon procedures engagement, the practitioner reports the specific procedures performed and the results thereof. He/she is required to expressly **disclaim an opinion**, and to state that an audit might have entailed more or less extensive procedures than those actually performed. Accordingly, agreed-upon procedures engagements are often less expensive than audits.

b. Procedures Performed.

The auditor performs procedures that will, in his/her professional judgment, support the expression of an opinion. The auditor is responsible for the sufficiency of the procedures to support his/her opinion, and makes such determinations as materiality, sample sizes, etc.

When engaging practitioners to perform agreed-upon procedures, the client (i.e., **the State agency**) must make the final **determination of the procedures to be used** and is **responsible for their sufficiency**. The premise underlying this principle is that the practitioner performs the procedures to support a report for the State agency's use, and the State agency knows its own needs better than anyone else. If materiality is an issue, materiality levels are prescribed. The **practitioner's responsibility** is to **carry out the agreed-upon procedures and report the results**.

c. Audience for the Final Report.

An auditor's report is a matter of public record; it is filed with public agencies and used by numerous entities. The report on a GAAS

financial statement audit of a publicly traded corporation, for example, is filed with the Securities and Exchange Commission and relied on by numerous investors, lenders, and regulatory agencies. An A-133 audit report is filed with the Single Audit Clearinghouse and the results made available to all Federal agencies that had made awards to the auditee.

By contrast, the distribution of a practitioner's report on agreed-upon procedures is **restricted to "specified users."** These include the State agency, and may include other entities if they are identified in the practitioner's report or in the engagement letter. The premise underlying this requirement is that the report is "custom tailored" for the State agency's use. It is not a matter of public record unless the practitioner and the State agency so agree and the practitioner so states in the report.

28. Q. The programmatic reviews required by program regulations often provide more thorough coverage of program compliance requirements than do single audits. Therefore, why should we continue to pay for the audits?

A. Audits and programmatic reviews were never intended to be mutually exclusive. They were intended to complement each other. Reviews form an essential part of the State agency's monitoring program by maintaining its ongoing relationship with its subgrantees. This relationship is crucial to sustaining the proper operation of the programs. Because this relationship is ongoing, however, it entails the risk of diminished objectivity; reviewers may be placed in the position of "auditing" their own work. This is where audits come in. Auditors cannot always examine compliance as intensively as do program reviewers because of time and cost restrictions; however, the objectivity resulting from auditors' independence of their auditees provides a level of assurance and credibility with the public that review by "insiders" cannot often meet. In short, reviews are analogous to a corporation's internal quality control program while single audits correspond to the financial statement audits a publicly traded corporation must obtain and file with the Securities and Exchange Commission.

29. Q. How can a State agency meld reviews, audits, and agreed-upon procedures engagements into a comprehensive, cost-effective subgrantee monitoring program?

A. There is no "right" mix of monitoring tools for all State agencies. Each one must mobilize that combination of tools that best meets its monitoring needs within the constraints of regulatory requirements and available resources. "OMB expects pass-through entities to consider various risk factors in developing subrecipient monitoring procedures, such as the relative size and complexity of the Federal awards administered by subrecipients, prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures." (62 FR 35280, June 30, 1997)

One possibility might be to use practitioners to perform agreed-upon procedures in some program areas for subgrantees not required to obtain A-133 audits, while using State reviewers for other areas where accounting skills are less essential. For example, a State agency administering the CACFP could engage CPAs to perform agreed-upon procedures in the area of nonprofit program operations (Activities Allowed or Unallowed) and Allowable Costs/Cost Principles, while assigning staff reviewers to cover meal counting and claiming, nutritional requirements, and client eligibility.

30. Q. A State agency contracting for agreed-upon procedures at subgrantees must make such determinations as materiality, sample sizes, etc. that an auditor would make in an audit. Will FNS issue guidance on making these determinations?

A. No. There is no "right" level of materiality or "right" sample size that will apply in all cases. Materiality is a judgment call; it means: "Would it make a difference to a reasonable, prudent person in the circumstances?" For example, how great an error in a school district's meal counts can a State agency tolerate before it will want a finding reported? The answer will depend on such factors as the size and complexity of the program at each school district, the effectiveness of each school district's system of management control, whether fraud is suspected, etc. FNS could not anticipate every possible situation in the

operation of the food assistance programs and prescribe a suitable materiality level for each. In an audit, materiality is a matter of the auditor's professional judgment. In an agreed-upon procedures engagement, such judgment is exercised by the State agency.

31. Q. Is an "agreed-upon procedures" engagement under Part 3052 subject to GAGAS?

A. Yes. GAGAS classify financial audits as either "financial statement audits" or "financial related audits." An A-133 audit (whether organization-wide or program-specific) is considered a financial statement audit because the auditor is required to express an opinion on one or more financial statements prepared by the auditee. On the other hand, an engagement to perform agreed-upon procedures at an entity operating Federal programs is viewed as a type of "financial related audit." GAGAS incorporate by reference the authoritative literature applicable to agreed-upon procedures. (Government Auditing Standards, 1994 Revision, paragraphs 2.4.b., 2.5, 4.39, and 5.36)

32. Q. What is the scope of an "agreed-upon procedures" engagement under Part 3052?

A. A practitioner presents "specific findings to assist [the State agency] in evaluating [subgrantees'] assertions about [their] compliance with specified requirements or about the effectiveness of [their] internal control structure over compliance based on procedures agreed upon by [the State agency]." (SSAE 3, paragraph 15) Section 3052.230(b)(2) limits the scope of an "agreed-upon procedures" engagement to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and/or reporting. Therefore, all agreed-upon procedures used in such engagements must relate to compliance with, or internal controls over, one or more of these types of compliance requirements. General guidance on the types of compliance requirements can be found in parts 3 and 4 of the Compliance Supplement, and general guidance on the related internal controls can be found in part 6 of that document.

33. Q. Can a State agency cause agreed-upon procedures to be uniformly performed at all its subgrantees that do not have Federal audit requirements under Part 3052?

A. Yes. However, agreed-upon procedures engagements are not a device for circumventing the $300,000 threshold stated in the Single Audit Act Amendments of 1996. As noted in question 26, above, agreed-upon procedures engagements comprise one of several monitoring tools available to State agencies. A State agency must use the particular combination of monitoring tools that will give it the most efficient, effective oversight over its subgrantees. Performing agreed-upon procedures at all subgrantees that do not have Federal audit requirements may not be an efficient use of scarce administrative funds. At a minimum, a State agency should consider whether the cost of subjecting a subgrantee organization to this form of monitoring is justified by the size of its sub-award to that organization and/or other information already known about that subgrantee.

34. Q. What is meant by an entity's "assertion" about its compliance or about the effectiveness of its internal controls over compliance?

A. Implicit in a subgrantee's submission of a claim for reimbursement or equivalent document to its State agency is the assertion that it is entitled to the requested payment by virtue of: (a) having complied with applicable programmatic requirements, and (b) having an internal control structure capable of providing reasonable assurance that compliance will be maintained and proper claims submitted. If the subgrantee does not have an audit requirement under Part 3052, the State agency may seek assurances about these assertions by other means, including arranging for an agreed-upon procedures engagement. For this purpose, the AICPA professional standards also require the asserter (that is, the subgrantee) to furnish its assertions in the form of a Management Representation Letter. (SSAE 3, paragraph 70; SSAE 4, paragraphs 6-8 and 39) Exhibit C, attached, presents an illustrative Management Representation Letter.

35. Q. What documentation is needed to support agreed-upon procedures engagements of subgrantees not required to obtain A-133 audits?

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35. Q. What documentation is needed to support agreed-upon procedures engagements of subgrantees not required to obtain A-133 audits?

A. The State agency's record on each agreed-upon procedures engagement should include:

1. The **Engagement Letter** from the practitioner. Public accountants use such letters to document their understanding of the terms of the engagement and each party's expectations of the other. The Engagement Letter may serve as the contract, or it may be incorporated into a standard form State contract. If the State and the practitioner intend the Engagement Letter to be the complete agreement, it must contain the required contract provisions (remedies for breach of contract, termination for cause or convenience, record retention, access to records and working papers, etc.). An illustrative Engagement Letter, drafted for an engagement to perform agreed-upon procedures at a hypothetical CACFP institution, is attached as Exhibit B. Since this Exhibit is for illustrative purposes only, it does not contain the required contract provisions.

2. The subgrantee's **Management Representation Letter** containing its written assertions of programmatic compliance, as described in question 34, above. These assertions must be in writing if the practitioner is to perform procedures with respect to them. (SSAE 4, paragraphs 7-9; SSAE 3, paragraph 10) An illustrative Management Representation Letter, drafted for an engagement to perform agreed-upon procedures at a hypothetical CACFP institution, is attached as Exhibit C.

3. The **practitioner's report**. This goes without saying. An illustrative report on agreed-upon procedures performed at a hypothetical CACFP institution is attached as Exhibit D.

4. Documents generated by the **State agency's follow-up** on any findings reported by the practitioner.

If the State agency engaged public accountants to perform agreed-upon procedures, documentation should also include the records generated by the procurement process (published request for proposals, etc.).

36. Q. Is the cost of agreed-upon procedures engagements an allowable charge to Federal awards?

A. The cost of agreed-upon procedures engagements at subgrantees is an allowable cost to the State agency, provided: (a) the work performed conforms to the parameters stated at 7 CFR 3052.230(b)(2); and (b) the engagements are arranged and paid for by the State agency. The cost of such engagements is never allowable to a subgrantee. (See also question 40, below.)

37. Q. How can a State agency handle its procurement of agreed-upon procedures engagements of subgrantees in ways that ensure the State gets a worthwhile product without exceeding the authorized "limited scope?"

A. At a minimum, any solicitation of proposals for such services published by a State agency must: clarify that the desired service is the performance of "agreed-upon procedures" under SSAE 3 or 4 or equivalent literature rather than "audits;" and identify the classes of subgrantee organizations, programs, and types of compliance requirements that will form the subject matter of the agreed-upon procedures. Strategies available to a State agency for obtaining these services include, but are not limited to:

a. Working with the State Auditor or equivalent official to design the agreed-upon procedures, and including them in its published request for proposals (RFP). The procedures stated in the RFP could, of course, be modified in the course of negotiations leading to contractor selection so long as the State agency, not the contractor, assumes responsibility for their sufficiency. The downside of this approach is that publication of the RFP would announce to subgrantees the procedures expected to be used.

b. Publishing an RFP that asks proposers to propose the procedures. As with the foregoing strategy, negotiations leading to contractor selection may entail modification of the proposed procedures, and the State agency must take ultimate responsibility for them. A State

agency using this approach should include the State Auditor or equivalent official in its negotiations with proposers.

Regardless of the procurement strategy employed, we recommend that a State agency involve its State Auditor or equivalent official in its efforts to arrange for agreed-upon procedures engagements at subgrantees. Such coordination would minimize the risk that the State agency may subsequently be second-guessed about either the sufficiency of the procedures, or their conformity to the "limited scope" stated in Part 3052. In selecting practitioners, the State agency may also wish to coordinate with the State CPA society and/or the State Board of Accountancy. These organizations can provide such information as whether a practitioner being considered for a contract has recently had a peer review.

38. Q. What assurances can a "limited scope audit" provide regarding fraud in the program(s)?

A. The State agency can include procedures to detect fraud in its agreed-upon procedures so long as the procedures relate to one or more of the types of compliance requirements stated at 7 CFR 3052.230(b)(2). For example, procedures to detect program benefits fraudulently obtained would relate to "eligibility." Because GAGAS classify agreed-upon procedures engagements as financial related audits, moreover, a practitioner who uncovered evidence of fraud while performing such procedures would be required to report it in the same manner as would be required in a "regular" audit. (Government Auditing Standards, 1994 revision, paragraphs 5.21 through 5.25.)

39. Q. Can a State agency order an audit of a subgrantee for cause if the subgrantee expended less than $300,000 in Federal awards?

A. No. In setting the dollar threshold for audit requirements at $300,000, the Federal Government made a determination that auditing lower levels of Federal expenditures did not represent an efficient use of scarce Federal resources. A State agency that has cause to order an audit of a subgrantee that has no audit requirement under Part 3052 should consider arranging for an agreed-upon procedures engagement, a

programmatic review, or a criminal investigation, depending on the circumstances that led to its raising this issue.

40. Q. Can a State agency require a subgrantee to obtain the performance of agreed-upon procedures, as described in 7 CFR 3052.230(b)(2), and charge the cost to its program subgrant(s)?

A. No. The regulation is very clear that such services must be "paid for and arranged by a pass-through entity." Further, the practitioner's report is intended for the State agency's use; therefore, only the State agency can determine the procedures to be performed and take responsibility for their sufficiency.

41. Q. The USDA OIG issues guides for making program-specific audits of certain FNS programs. Can a State agency prescribe the use of such a guide for agreed-upon procedures engagements at subgrantees operating the applicable programs?

A. Part 3052 identifies the subject matter of a "limited scope audit" but does not identify the procedures to be performed. Audit procedures contained in an audit guide issued by USDA for use in making program-specific audits may relate to the types of compliance requirements stated in section 3052.230(b)(2); and a State agency may adopt them as agreed-upon procedures. In so doing, however, the State agency and its practitioners must be guided by the following cautions:

a. The State agency and its practitioner must satisfy themselves that the USDA audit guide reflects current program requirements. In addition, an audit guide tailored for USDA's needs may require revision to meet a State's needs.

b. The document was developed to be an audit guide. Use of the guide in its entirety, including the prescribed reporting, would generate an A-133 program-specific audit in violation of 7 CFR 3052.230(b)(2). The State agency and its practitioners must extract from the USDA guides the specific procedures that relate to the types of compliance requirements identified above.

c. Procedures drawn from the USDA audit guide may require modification to make them specific enough to satisfy requirements of SSAE 3 and 4. For example, a procedure calling for the auditor to "select a sample" may need to be expanded to specify the sample size, sampling methods, etc. Likewise, any considerations of materiality (such as the margin of error in a CACFP institution's meal counts that can be accepted without taking exception) must be expressly spelled out. While these are matters for an auditor's professional judgment in an audit engagement, the State agency must take responsibility for them when engaging a practitioner to perform agreed-upon procedures.

d. Only procedures that relate to the types of compliance requirements listed at 7 CFR 3052.230(b)(2) may be used. For example, the current USDA audit guide for the CACFP includes procedures for auditing against procurement rules. These could not be used in an agreed-upon procedures engagement because procurement is not one of the stated types of compliance requirements that comprise the scope of such an engagement.

To minimize its exposure to these potential pitfalls, a State agency contemplating the adoption of a USDA audit guide for agreed-upon procedures engagements should be advised to coordinate this effort with its State Auditor or equivalent official, and/or to engage the services of a qualified consultant.

42. Q. Can a State use the State Auditor or equivalent official to perform agreed-upon procedures engagements rather than contracting for CPAs to perform this service?

A. Yes. If the staff of the State Auditor are qualified to make audits, they are also qualified to perform agreed-upon procedures.

43. Q. Since the auditor is required to test only major programs for compliance in a single audit, is the audit cost allocable only to major programs?

A. No. A single audit benefits the grantee or subgrantee organization as a whole; indeed, the theory underlying the single audit concept is that one audit meets the needs of all users of audit information about the auditee. Therefore, all activities of the auditee must bear a reasonable portion of the audit cost.

In addition, the major programs selected for compliance testing are a subset of the programs for which the auditor has made risk assessments under 7 CFR 3052.525. Therefore, even the cost of the audit's compliance phase is not restricted to programs actually tested for compliance.

44. Q. How should the cost of a single audit be allocated to Federal programs?

A. The auditee must assign the audit cost to individual programs through a reasonable, systematic method that conforms to applicable Federal cost principles (OMB Circular A-87, Cost Principles for State and Local Governments; OMB Circular A-122, Cost Principles for Nonprofit Organizations, etc.). In so doing, the auditee may treat the audit cost as a direct or indirect cost. (7 CFR 3052.230(a))

If the auditee claims the audit cost as an indirect cost, it must charge the cost to programs in accordance with its negotiated indirect cost rate agreement (A-87, Attachment E; A-122, Attachment A, sections C through E; etc.). Audit costs treated as direct costs may also be affected by negotiated allocation documents. For example, a State's central services cost allocation plan (A-87, Attachment C) may provide for the State Auditor to bill audit costs directly to user agencies; and the State's social services agency would then assign such direct billings to programs in accordance with its public assistance cost allocation plan. (A-87, Attachment D). In such a scenario, the State Auditor may also itemize the agency billings by program in order to facilitate the user agencies' direct charging of the billed costs to programs.

Unless the auditee has documentation demonstrating a higher actual cost, the Single Audit Act restricts the percentage of a single audit's cost that may be borne by Federal programs in the aggregate to the ratio

of the auditee's aggregate expenditures under such programs to its total expenditures. (31 USC 7505(b)(2)) It would logically follow that, in the absence of documentation supporting a higher actual cost, the percentage of the audit cost charged to any Federal program individually may not exceed the ratio of the State agency's expenditures under that program to its total Federal expenditures for the audit period. Acceptable documentation of higher actual costs may include the negotiated allocation documents discussed above, billings from the State Auditor or other audit organization, etc.

Sec. 3052.235 - Program-Specific Audits.

45. Q. For purposes of qualifying a subgrantee for a program-specific audit under 7 CFR 3052.200(c), what is considered a "Federal program?"

A. Section 3052.2 defines "Federal program" as one or more awards assigned the same CFDA number or a recognized cluster of such programs. The Compliance Supplement identifies the following FNS programs and clusters as "Federal programs" for this purpose: a Food Stamp Cluster consisting of FSP benefits and administrative funds; a Child Nutrition (CN) Cluster consisting of the National School Lunch Program (NSLP), School Breakfast Program (SBP), Special Milk Program for Children (SMP), Summer Food Service Program for Children (SFSPC), together with the related commodities; the CACFP and related commodities; the WIC Program; an Emergency Feeding Cluster consisting of TEFAP commodities and TEFAP administrative funds; and the Nutrition Program for the Elderly (NPE).

46. Q. What are the implications of clustering discrete categorical programs?

A. Programs identified as part of a cluster are deemed to be sufficiently alike that they can be viewed collectively, as "one program," for purposes of applying the audit requirements of Part 3052. The regulation gives two criteria for recognizing a cluster: the cluster's constituent programs must be closely related, and they must have common compliance requirements. Clusters that the Federal Government has recognized for purposes of A-133 audits of States are

identified in parts 4 and 5 of the Compliance Supplement. The recognition of two or more programs as elements of a cluster has the following implications:

a. Eligibility for Program-Specific Audits.

A non-federal entity operating any combination of programs within a recognized cluster but no other Federal programs is deemed to be operating "one program." The entity may therefore elect to obtain a program-specific audit instead of a single audit. Since program-specific audits are generally less expensive, the availability of this option has budgetary implications for non-federal entities. They may be able to spend less on audits and more on other program needs.

b. Identification and Testing of Major Programs in Single Audits.

The auditor must treat a recognized cluster as "one program" when making the major program determinations required by 7 CFR 3052.520. This may result in categorical programs that would not have qualified individually as major being tested as major by virtue of their inclusion in a recognized cluster. Because the auditor must do enough work to support an opinion on compliance for the cluster as a whole, he/she may end up doing more work than would have been required had the cluster not been recognized. This is where the criterion of common compliance requirements becomes an issue; compliance with common requirements can be tested for two or more programs concurrently, thus promoting audit efficiency.

47. Q. Section 3052.2 states that a State can identify clusters of programs for purposes of its subgrantees' audits. How would such State clusters relate to those identified in the Compliance Supplement?

A. A State can add programs to a cluster designated in the Compliance Supplement but may not delete any. A State can also design clusters of its own. In doing so, however, the State must apply the stated criteria for a cluster: closely related programs that have common compliance requirements. If challenged, the State must be able to show that its clustered programs met these criteria. Therefore, we recommend that a

State coordinate its identification of a cluster with its cognizant Federal agency, with the awarding agency for the programs involved, and with the State Auditor or equivalent official before announcing it to its subgrantees.

Such coordination is recommended because auditors may view proposed State clusters differently from State and local program managers. Clustering is attractive to program managers because of its fiscal implications; by making the option of less expensive program-specific audits available to some subgrantees, it represents a more efficient use of scarce program funds. Auditors, however, focus on the clustering concept's implications for audit efficiency; the more alike the programs in a cluster are, the more compliance requirements can be concurrently tested. Consequently, auditors may favor a narrow interpretation of the clustering criteria while program managers may favor a broad interpretation. Up-front consultations and planning by the two parties may facilitate the identification of State clusters that both can live with.

48. Q. How would a State go about designating additional clusters of programs for purposes of its subgrantees' audits?

A. Each State must establish procedures for doing this. Until a State formally establishes such procedures and designates an office responsible for them, we recommend that a State program manager coordinate such determinations not only with the applicable Federal agencies but also with the State Auditor or equivalent State official.

49. Q. Can a State issue its own program-specific audit guide for use by its subgrantees and their auditors?

A. If a USDA audit guide is available for the program the State's guide would cover, then 7 CFR sec. 3052.235(a) requires auditors to use the USDA guide. Therefore, the State must prescribe the USDA guide for its subgrantees' audits of that program.

We would prefer that States prescribe the Compliance Supplement as guidance for program-specific audits of programs for which no USDA

audit guide exists. This is because the Compliance Supplement has been crafted, in collaboration with USDA, to provide guidance on meeting the auditor's responsibility for such programs. That responsibility is the same as it would be for a major program in a single audit. (7 CFR sec. 3052.235(b)(1)) Unlike a USDA audit guide, use of the Compliance Supplement is not mandatory. Nevertheless, the Compliance Supplement stands as the Federal standard for auditing programmatic compliance.

If a State still wishes to design its own audit guide for programs not covered by a USDA audit guide, we would not prohibit it so long as the State coordinated it with FNS, the OIG, and the State Auditor or equivalent official. In this way, USDA would have reasonable assurance that the resulting program-specific audit guide met the Federal standard.

Subpart C -- Auditees:

Sec. 3052.305 - Auditor Selection.

50. Q. Under 7 CFR sec. 3052.305(a), a program operator using CPAs to make its audits must obtain their services in accordance with the procurement rules at 7 CFR Part 3015, Subpart S, 7 CFR sec. 3016.36, or 7 CFR sec. 3019.40 through 48, as applicable. Must a program operator also follow the rules on suspension and debarment in such transactions?

A. Yes. Departmental regulations at 7 CFR sec. 3017.110(a)(1)(ii)(C) include in lower tier covered transactions "any procurement contract for goods or services between a participant and a person under a covered transaction, regardless of amount, under which that person will have a critical influence on or substantive control over that covered transaction. Such persons are: (*1*) Principal investigators[; and] (*2*) Providers of federally-required audit services." (Emphasis added.)

Sec. 3052.320 - Report Submission.

51. Q. What is the role of the Single Audit Clearinghouse?

A. The responsibilities of the Clearinghouse are stated at 7 CFR 3052.320(h). They include:

a. Audit Report Distribution. The Clearinghouse is required to distribute audit reporting packages described at 7 CFR 3052.320(c) to applicable Federal agencies. A Federal agency receives the complete reporting package if the audit report presents findings and questioned costs relating to direct awards made by that agency, and/or the auditors' Summary Schedule of Prior Audit Findings shows that corrective action on such findings from prior audits remains incomplete. For example, USDA would receive the complete package on a State single audit only if there were current or unresolved prior findings in USDA programs administered by the State.

b. Database Maintenance. The Clearinghouse is required to maintain a database of completed audits. Auditees provide the data by submitting the data collection form described at 7 CFR 3052.320(b). A copy, completed for a hypothetical auditee, is attached as Exhibit A. Examples of data elements include: identification of the Federal awarding agencies that will receive the complete reporting package, identification of each Federal program operated by the auditee, the level of Federal expenditure under each program, the identification of major programs, the identification of any type of compliance requirement for which there were findings under each program, etc.

c. Audit Information Dissemination. The Clearinghouse is required to provide appropriate audit information to Federal awarding agencies. To accomplish this, it has developed a data query process, whereby a Federal agency can retrieve audit information from the database. See question 56, below, for more information on this process.

d. Follow-Up. The Clearinghouse is required to follow up with known auditees that have not submitted audit reporting packages. While Federal and State awarding agencies routinely do this as part of their monitoring, the Clearinghouse will also follow up in cases where it knows an audit is required but no reporting package and/or data collection form have/has been received.

52. Q. We understand that the Single Audit Clearinghouse rejects a significant percentage of the audit data collection forms required by 7 CFR 3052.320(b) and the audit reporting packages submitted under 7 CFR 3052.320(c). What are the most common errors that result in such rejection?

A. The following errors occur frequently:

1. Use of a substitute form. Data can be accepted only if presented on Standard Form SF-SAC, described at 7 CFR 3052.320(b). A sample form, completed for a hypothetical auditee, was provided with the May 1998 Q & As. One can obtain the form by calling **888-222-9907,** or by accessing the OMB Home Page at **http://www.whitehouse.gov/OMB/** and keying its "Grants Management" menu item.

2. Submission of an incomplete reporting package.

3. Inconsistent entries on the data collection form. For example, the auditee and its auditor may enter "no findings" in Part III, item 4 of the form and then list findings for individual programs in Part III, item 7.

4. Designating the State agency or another pass-through entity as the auditee's Federal cognizant or oversight agency in Part I, item 9.

5. Omitting a program's CFDA number from Part III, item 6.

53. Q. How do errors in preparing the data collection form affect the maintenance of the database?

A. The clearinghouse will not process incorrectly prepared data collection forms and incomplete reporting packages, but will instead return them to the auditee for correction. Until the Clearinghouse receives an acceptable data collection form and reporting package, the auditee will not receive credit for meeting the audit requirement and no record of its audit will be created in the single audit database. By thus

delaying the assembly of a complete database, the submission of flawed reports diminishes the value of the database as a monitoring tool. State agencies are urged to make their subgrantees and the subgrantees' auditors aware of the need to "get it right the first time." If the State agencies, their subgrantees, or their subgrantees' auditors have questions on the reporting requirements, they should contact the Clearinghouse directly at **(301) 457-1551** or at **(800) 253-0696**.

In this connection, we wish to call particular attention to one frequently committed reporting error that has negative repercussions within the Federal Government. Many auditees and their auditors incorrectly complete Part III, item 5 of the form by designating all Federal agencies from which the auditee received Federal awards to receive copies of the audit reporting package. The Clearinghouse is required to furnish copies only to Federal agencies for whose programs the auditors reported current year findings and/or prior year findings for which corrective action remains incomplete. Incorrectly designating other Federal awarding agencies to receive copies thus results in the production and distribution of unneeded copies. This, in turn, detracts from the efficient use of Federal resources. We strongly urge State agencies to counsel their subgrantees on this matter.

54. Q. Are CACFP proprietary institutions required to submit the data collection form to the Clearinghouse?

A. No. Proprietary institutions are not under A-133 and Part 3052, which apply only to States, local governments, NFPOs, and Indian tribal organizations. Therefore, they are not bound by the requirements of these documents and their audits are not part of the database maintained by the Clearinghouse.

Subpart D -- Federal Agencies and Pass-Through Entities:

Sec. 3052.400 - Responsibilities of Federal Agencies and Pass-Through Entities.

55. Q. Under 7 CFR 3052.400(c)(6), a Federal awarding agency must "assign a person responsible for providing annual updates of the

compliance supplement to OMB." To whom has USDA assigned that responsibility?

A. The responsible USDA official is Pat Wensel, Director, Planning and Accountability Division, Office of the Chief Financial Officer (OCFO). Ms. Wensel is the USDA policy official for A-133 audit matters. Her responsibilities include not only maintaining the Compliance Supplement chapters on USDA programs, but also promulgating departmental policy on A-133 audit matters and coordinating agency actions on A-133 audit findings. Ms. Wensel's office published Part 3052 and is responsible for its maintenance; FNS's comments on future proposed revisions to that regulation will be directed to her.

56. Q. How can FNS access the data held by the Clearinghouse?

A. One can access the Internet site for the Single Audit Clearinghouse directly at **http://harvester.census.gov/sac.** Alternatively, one can go through the OMB's Home Page at **http://www.whitehouse.gov/OMB/**. If one takes the OMB route, one would first access the "Grants Management" page; then scroll down to the A-133 listings; and finally key on the listing entitled "Access the Single Audit Clearinghouse."

After the user reaches the Clearinghouse, the program prompts him/her through the following steps:

1. The user is initially presented with the choice of "Reporting Tools" or "User Tools." To retrieve records on audit results, one must key on the option "User Tools: Retrieve records."

2. This will bring up a page that ends with the choices: "OK to retrieve records" or "Return to the previous page." The user must key on the former.

3. This action presents the user with a number of "search criteria," such as audit period, auditee fiscal year, type of A-133 audit (single or program-specific), Federal program (by CFDA number), amount of questioned costs, type of compliance

requirement, auditee's employer identification number (EIN), etc. By selecting search criteria, the user establishes the parameters for the records in which he/she is interested. The user then keys on "View Results." The computer will identify and retrieve the records meeting the stated criteria, or inform the user that no such records could be located. Records meeting the criteria will be presented in tabular form.

Users that have difficulty accessing the database or retrieving records should contact the Clearinghouse directly at **(301) 457-1551** or at **(800) 253-0696**.

57. Q. How can a State agency obtain the results of A-133 audits of its subgrantees?

A. In addition to its required reporting to the Clearinghouse, a subgrantee must submit the entire reporting package described at 7 CFR 3052.320(c) to its State agency if: (a) its current year A-133 audit generated findings and questioned costs relating to awards received from the State agency; and/or (b) its Summary Schedule of Prior Audit Findings shows deficiencies from prior audits relating to awards received from the State agency, for which corrective action remains incomplete. (7 CFR 3052.320(e)(1)) If the subgrantee is not required to submit the reporting package, it is required to notify the State agency in writing to this effect. Such written notification must expressly state that: the audit had been made in accordance with 7 CFR Part 3052; there were no findings or questioned costs relating to awards received from the State agency; and there were no unresolved prior year audit findings relating to such awards. (7 CFR 3052.235(c)(2), 3052.320(e)(2))

58. Q. Can a State agency access the data held by the Single Audit Clearinghouse?

A. Yes. The State agency would access the database via the same procedure outlined for FNS in question 56, above.

59. Q. Give some examples of ways a State agency could use the Clearinghouse to monitor subgrantees.

A. The State agency could:

1. Search for a record on a particular subgrantee suspected of being delinquent with a required audit. The State agency would enter that auditee's EIN and the applicable auditee fiscal year as the search criteria. The computer would then call up any record it had on that subgrantee for that fiscal year.

2. Find out what other Federal funding sources a subgrantee had. The State agency would enter the subgrantee's EIN and the applicable fiscal year as search criteria. When the computer presented the table of data on the auditee, the State agency would key on the table column heading "CFDA." This would call up another table showing all Federal awards (by CFDA number) under which the auditee expended Federal funds during the audited fiscal year.

3. Identify all subgrantees operating a particular program in the State that obtained audits. To do this, the State agency would enter the program's CFDA number, the State in which the auditee is located, and the auditee's fiscal year as search criteria. The computer would then present a list of records meeting these criteria. The State agency could then identify its subgrantees by their EINs, or key on each EIN individually to call up another table on each record that identifies the auditee by name.

60. Q. How can a State agency identify audit findings from an auditee's database record?

A. An auditee record retrieved from the database will include the following columns under the heading of "Audit Findings and Questioned Costs:"

1. Compliance Requirements (abbreviated "Compl. Req."). If the auditor reported noncompliance with one or more types of

compliance requirements, codes for the applicable types of compliance requirements will appear in the "Compl. Req." column. The codes correspond to the sections in Part 3 of the Compliance Supplement, where the types of compliance requirements are described. For example, "A" indicates findings of noncompliance in Activities Allowed or Unallowed; "B" indicates violations of Allowable Costs/Cost Principles; "E" indicates findings under "Eligibility;" "L" indicates findings of violations of reporting requirements; etc. The codes are also given in footnote 2 at the bottom of page 3 of the data collection form (SF-SAC).

2. Questioned Costs (abbreviated "Q.Cost"). The amount of questioned costs reported by the auditor will appear in this column.

3. Internal/Management Control Findings (abbreviated "Findings"). Three codes are available for entry in this column: "A" for material weaknesses, "B" for reportable conditions, or "C" for no findings in the area of internal/management controls.

The codes used in the database record will identify the types of compliance requirements in which the auditor found material noncompliance and/or internal/management control weaknesses, but will not describe the auditee's specific violation(s) of those requirements or specific control weaknesses. For that information, the State agency must review the corresponding section(s) of the audit report. As noted above, however, the State agency can use the Clearinghouse database to quickly identify those audits that have findings and require such review. See also Exhibit A, attached.

61. Q. Some State agencies are concerned that their reviewers detect violations by their subgrantees that the subgrantees' auditors should have detected. How can a State agency obtain improved audit coverage of Federal programs for which it is responsible?

A. We believe such problems generally stem from auditors' lack of in-depth program knowledge. Unlike State agency staff, State auditors and

CPAs do not work with FNS programs full time. They must quickly learn the programs operated by their auditees in order to prepare for their audits, then move on to engagements for other clients. The more program knowledge they can absorb in the available time, the better equipped they will be to examine the programs effectively. In this regard, the Compliance Supplement provides program-specific guidance only on **what** the auditors should examine; guidance on **how** they should examine it is presented generically. This document is as relevant and up-to-date as the Federal Government can make it. Nevertheless, it cannot instantly transmit to auditors a State agency's program knowledge gained by years of experience monitoring its subgrantees.

A State agency should always practice "audit management" to get the most from its investment in audit work. The aspect of audit management most likely to remedy the problem described here is education. We recommend that State agencies offer the auditors training on the programs that emphasizes: (a) the types of violations typically committed by subgrantees in each type of compliance requirement, and (b) the methods the State agency has successfully used to detect them. Perhaps the most efficient way a State can do this is to work through the State's Board of Accountancy and CPA Society. These organizations "network" with auditors and audit organizations throughout their respective States, and are thus uniquely positioned to notify them about the training. They may also designate the training as eligible to meet auditors' continuing professional education (CPE) requirements, which would make the training even more attractive to the auditors.

62. Q. Under 7 CFR sec. 3052.320(f), a Federal awarding agency or pass-through entity may request a copy of the audit reporting package described at 7 CFR sec. 3052.320(c) from an auditee that was not required to submit one under 7 CFR sec. 3052.320(e)(2). Can a State agency invoke section 3052.320(f) to establish a procedure whereby subgrantees excused by section 3052.320(e)(2) from submitting reporting packages nevertheless submit them to the State agency?

A. No. Section 3052.320(e)(2) expressly instructs subgrantees to submit written notification to their pass-through entities in lieu of the

complete reporting package if all the following conditions apply: (a) The audit was conducted in accordance with Part 3052; (b) The schedule of findings and questioned costs disclosed no audit findings relating to Federal awards provided by the pass-through entity; and (c) The summary schedule of prior audit findings did not identify any audit findings relating to Federal awards provided by the pass-through entity in prior years for which corrective action remains incomplete. The regulation gives the subgrantee the option to submit the entire reporting package even under these conditions but does not authorize the pass-through entity to require it. Requiring the submission of reports that will require no action by the pass-through entity would amount to a wasteful paper exercise. The authority stated in section 3052.320(f) refers to requesting reporting packages on an exception basis if a specific need is identified.

63. Q. Suggested audit procedure 4 under "Subrecipient Monitoring" in Part 3 of the Compliance Supplement states: "Verify that the pass-through entity receives audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133." Does this mean that a State agency must evaluate single audit compliance for subgrantees receiving less than $300,000 from the State agency?

A. Yes. A State agency is responsible for monitoring its subgrantees' compliance with applicable Federal requirements, regardless of the level of Federal funding a subrecipient receives from the State agency. (7 CFR 3052.400(d)) Compliance with Part 3052, which implements A-133, is one such requirement. It is also a condition of receiving Federal awards. Therefore, the State agency must satisfy itself that a subgrantee with an audit requirement under Part 3052 obtained an acceptable single or program-specific audit, as applicable.

A State agency is not expected to make on-site reviews or perform elaborate monitoring procedures solely to identify subgrantees that received $300,000 or more in the aggregate but less than $300,000 from the State agency. Asking the subgrantees for this information, as outlined in the preamble to the April 30, 1996 version of A-133 (61 F.R. 19137), would suffice. Perhaps the most efficient way to do this would be to request such information in connection with the subgrantees'

annual program applications and agreements. (See questions 26 through 42 and 57 through 62, above, for more information on monitoring.)

64. Q. Suggested audit procedure 5 under "Subrecipient Monitoring" in Part 3 of the Compliance Supplement calls for "verify[ing] that the effects of subrecipient noncompliance are reflected in the [State agency's] records." What does this mean?

A. A subgrantee's failure to comply with terms and conditions of a Federal award may necessitate the State agency's recovery of some portion of the Federal funds previously disbursed to that subgrantee. The State agency must record the effects of the recovery in its own accounting records, and ultimately reflect them in reports to FNS. If, for example, a previous reimbursement payment to a school food authority (SFA) for free and reduced price lunches had been disallowed because the SFA had failed to document students' eligibility to receive their lunches free or at reduced price, the State agency would need to: (a) record the recovery as a cash collection and as a reduction of its expenditures for NSLP meal reimbursement; (b) adjust its FNS-10 report in order to shift the lunches in question from the free and reduced price to the paid category; and (c) adjust its next SF-269 financial report to reflect the reduction in its cumulative expenditures for NSLP meal reimbursement. (7 CFR 3052.400(d)(6))

65. Q. How can State agencies, their subgrantees, and auditors obtain copies of the current Compliance Supplement?

A. The Compliance Supplement is available from two sources:

1. OMB's Internet Grants Management Home Page. This page is located at the following address:

http://www.whitehouse.gov/OMB/.

One must key in the address exactly as it is stated here, carefully observing the distinction between the upper-case and lower-case letters. After accessing this address, the user will be presented with a menu and must select the "Grants Management" option.

The Compliance Supplement text is available in both "Word" and "Word Perfect" versions.

2. Government Printing Office (GPO). Orders should be sent to: Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, Pa. 15250-7954 (Phone 202-512-1800). In placing such an order, one must identify the document by its title (Circular A-133 Compliance Supplement) and GPO stock number . The stock number for the 1999 edition is 041-001-00522-6, and its unit price is $58.00. Orders may be data-faxed to the GPO at 202-512-2250.

Regardless of the method used to obtain the Compliance Supplement, program operators and auditors must be careful to order the correct edition. Both the May 1998 and April 1999 editions are available on the OMB's Home Page. Persons seeking the 1999 edition must be sure they are getting it and not the 1998 edition.

Subpart E -- Auditors:

Sec. 3052.500 - Scope of Audit.

66. Q. Different parts of the CN Cluster may be administered by different State agencies, with the result that different management philosophies and operating procedures are being applied to different classes of subgrantees that operate the same categorical programs. For example, the State educational agency may administer the NSLP and SBP in public schools while an alternate State agency administers them in private schools and residential institutions. How should an auditor approach this problem when making a single (organization-wide) audit of the entire State government?

A. The auditor must apply professional judgment. If, for example, the portions of the CN Cluster administered by alternate and/or distributing agencies are collectively immaterial to the Cluster as a whole, the auditor may consider disregarding them and focusing totally on the portion administered by the State educational agency. The auditor must, of course, document such determinations in the working papers.

67. Q. Under 7 CFR 3052.500(c)(1), an auditor must "perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs." What does this mean? What are its implications?

A. A grantee or subgrantee establishes internal/management controls over Federal programs to provide reasonable assurance that program operations will be conducted in compliance with applicable laws, regulations, grant agreements, etc. **Control risk** is the risk that material noncompliance that **could occur** in a major Federal program will not be either **prevented or detected** in a timely manner by the auditee's controls over the program. **Assessing control risk** entails evaluating the effectiveness of the auditee's controls in preventing or detecting such noncompliance. The auditor's conclusion about the effectiveness of the auditee's controls is known as the "**assessed level of control risk.**"

The requirement to assess the control risk of the auditee's major Federal programs has implications for both the auditor's report on internal control (required by 7 CFR sec. 3052.500(c)) and the auditor's opinion on the auditee's programmatic compliance (required by 7 CFR sec. 3052.500(d)). With respect to **expressing an opinion on compliance**, auditors assess control risk in order to determine the degree of reliance they can place on their auditees' internal/management controls to prevent or detect noncompliance. To the extent that such reliance is possible, and the audited program's inherent risk is also acceptable, they can achieve audit efficiency by modifying or reducing substantive testing of program compliance. If the auditor determines that the auditee has effective controls over applicant certification, for example, he/she may then be able to base conclusions about the auditee's compliance with eligibility requirements on a smaller sample of case files inspected.

The auditor begins the assessment process by analyzing the design of the controls to determine that they are effective as prescribed. If they are, and the auditor plans to place any degree of reliance on them, the auditor must test the controls to determine that they are operating as

prescribed. The level at which the auditor assesses control risk ("high," "medium," or "low") and the resulting amount of testing depend on the extent to which the auditor plans to rely on the controls. If, on the other hand, the auditor plans to place no reliance whatsoever on the auditee's controls, then he/she assesses the control risk at the maximum level (that is, at "high"); performs no tests of the controls; and conducts more substantive testing of the auditee's compliance.

The extent of the auditor's reliance on the auditee's controls and resulting tests of the controls are matters for the auditor's professional judgment. By assessing control risk, the auditor seeks to minimize the risk that the substantive tests of programmatic compliance he/she performs will fail to detect material noncompliance.

For purposes of **reporting on the auditee's internal/management controls**, however, 7 CFR 3052.500(c)(1) requires the auditor to test the controls as if he/she had planned to place the maximum degree of reliance on them in conducting substantive tests of compliance. This means the auditor must perform enough tests to support a "low" assessed level of control risk, regardless of his/her professional judgment. This requirement exists to provide the Federal Government with a reasonable "comfort level" from A-133 audits.

The only exception to this requirement is found at 7 CFR 3052.500(c)(3), which clarifies that the auditor need not test internal/management controls over a Federal program if controls over most or all of its compliance requirements are likely to be ineffective. In that case, the auditor would assess control risk for that program at the maximum ("high") level; and report a reportable condition or material weakness in the auditee's controls over the program.

In **summary**, this requirement has implications for the amount of work the auditor must do and the related cost to the auditee. With the exception noted above, the auditor must conduct enough testing of the auditee's internal/management controls over its major Federal programs to assess the control risk for these programs at a "low" level. On the other hand, the amount of testing needed to meet this requirement may

enable the auditor to achieve efficiencies in performing substantive tests of the auditee's compliance.

68. Q. Does the OMB have plans to add more FNS programs to those already covered in the 1998 Compliance Supplement?

A. No. The OMB endeavors to accept into the Compliance Supplement those programs most likely to be audited as major programs by virtue of their dollar volume or other attributes that expose the Federal Government to risk. This is because only major programs are tested for compliance. All the FNS programs that are expected to qualify as major in more than a very few audits were included in the 1998 edition. Very small programs, such as the Commodity Supplemental Food Program and the WIC Farmers Market Nutrition Program, are not expected to qualify as major. Accordingly, there are no plans to develop Compliance Supplement chapters on them.

69. Q. How does an auditor obtain guidance on programs not covered in the Compliance Supplement or covered in obsolete program-specific audit guides?

A. Part 7 of the Compliance Supplement provides a sequence of steps that an auditor should follow in developing an audit program to test compliance for programs not included in part 4 of the current Compliance Supplement. These steps are summarized below.

a. Identifying the program objectives, program procedures, and compliance requirements. The auditor must gain an understanding of how the program works and what laws and regulations apply to it. An auditor can do this by consulting with the auditee, its awarding agency, and/or the Federal agency responsible for the program; and by reviewing such documents as grant agreements, the CFDA, OIG audit guides (if available), etc.

b. Identifying those compliance requirements that could have a direct and material effect on the program. This is a process of elimination. Having identified the program's compliance requirements, the auditor must narrow the list down to those requirements for which

noncompliance could generate questioned costs or otherwise cause the auditee's awarding agency to take action (such as seeking recovery of part of the award or imposing restrictions applicable to high-risk grantees).

c. Identifying those compliance requirements that are susceptible to testing by the auditor. An auditor can test compliance with a requirement only if the requirement has characteristics such as: (i) Objective criteria exist, against which the auditor can assess compliance; (ii) Testing would enable the auditor to document noncompliance in a way that would permit the awarding agency to take action, or would alert the awarding agency of the need for further inquiry; (iii) Testing would generate information about the auditee that the awarding agency does not already have. The auditor must further "narrow down" the applicable compliance requirements to eliminate those that may have a direct and material effect on the program but are not susceptible to testing.

d. Classifying the selected compliance requirements into the types of compliance requirements identified in part 3 of the Compliance Supplement. If the compliance requirement relates to program purposes for which the auditee may use the awarded funds, for example, it should be subsumed under "Activities Allowed or Unallowed." The auditor would then consult the generic audit procedures for "Activities Allowed or Unallowed," given in part 3 of the Compliance Supplement.

e. Identifying applicable audit objectives and procedures for "Special Tests and Provisions." A compliance requirement that is unique to an individual program will generally not fit under one of the types of compliance requirements given in part 3 of the Compliance Supplement, or lend itself to testing through generic audit procedures. Accordingly, such requirements are classified as "Special Tests and Provisions." An example of such a "special provision" is the requirement that a State agency administering the WIC Program reconcile food instruments redeemed with food instruments issued; an auditor would need to devise audit procedures

to test compliance with this requirement if WIC had not been included in part 4 of the Compliance Supplement.

70. Q. Must an auditor test an auditee's compliance with every type of compliance requirement identified by part 2 of the Compliance Supplement (Matrix of Compliance Requirements) as applicable?

A. No. The auditor need test only those types of compliance requirements that are material to the program being audited. If, for example, an immaterial portion of a State's costs under a major program is incurred through procurement transactions, the auditor need not test compliance with procurement rules under that program.

71. Q. Why does the Compliance Supplement not contain a chapter on Food Distribution (CFDA No. 10.550)?

A. The commodity components of the Child Nutrition Cluster and the CACFP have been built into the respective Compliance Supplement chapters on these programs. In particular, audit procedures on the management of commodities have been included in section III.N. (Special Tests and Provisions) of each of these chapters.

This presentation has been adopted because the CFDA presents commodity assistance for the Child Nutrition Programs as integral parts of these programs and accounts for both cash and commodity assistance under the same CFDA numbers. For the National School Lunch Program (NSLP), for example, the CFDA states the program's objective as to "assist States, through cash grants <u>and food donations</u>, in making the school lunch program available to school students and to encourage the domestic consumption of nutritious agricultural commodities." (Emphasis added.) Likewise, the CFDA section on NSLP financial information gives Federal obligations for both cash grants and donated commodities (including bonus commodities). The financial information section under CFDA number 10.550 expressly excludes commodities distributed for the Child Nutrition Programs.

The CFDA presents the programs' cash and commodity components in this way because the two forms of assistance are inextricably linked. At

the local level, donated commodities and food purchased with cash reimbursement payments are used in preparing the same school lunches. Children are eligible for the lunches, regardless of what combination of purchased and donated foods was used in their preparation. At the State level, a State's entitlement to commodity assistance is established in the same way it is for cash assistance: the State "earns" it through the operation of the performance funding ("meals-times-rates") formula described in the Compliance Supplement.

72. Q. If commodities used in the Child Nutrition Cluster are viewed as an integral part of the Cluster, how should they be presented in a non-federal entity's Schedule of Expenditures of Federal Awards?

A. Two suggested presentations are attached as Exhibit E. One emphasizes the two assistance components (cash and commodities); the other stresses categorical programs. Nevertheless, there is currently no "right" way to present this information; any presentation is acceptable so long as it is clear.

73. Q. Institutions operating the CACFP have fiscal years that do not coincide with the award period (Federal fiscal year). The State agency is concerned about how these institutions can report their CACFP Federal expenditures for the audit period in their Schedules of Expenditures of Federal Awards, and how the institutions' auditors can test such figures. Of particular concern is the involvement of factors determining family day care home sponsors' entitlements to administrative funds (approved budgets, year-to-date costs, and homes-times-rates) for portions of two Federal fiscal years. The State agency believes it could resolve its concern by requiring the expansion of the CACFP coverage in institutions' single audits to include an additional calendar quarter. In that way, the audit could be made to cover a complete CACFP award cycle. Can the State agency do this?

A. The State agency can make the requirement but must pay for the incremental CACFP audit work. The scope of an audit made in accordance with Part 3052 is the auditee's fiscal year (or biennial period if applicable). If the auditee is subject to A-133 and Part 3052, Federal funds are available only for audit work required by that regulation. The

cost of audit coverage in excess of what the Federal Government requires is not allowable. (See also question 7, above.)

We also believe the State agency's proposed remedy is unnecessary. An auditor must do enough work to support an opinion on the auditee's compliance with all compliance requirements that applied during the audit period "which could have a direct and material effect on each major program...." (7 CFR Sec. 3052.505(c)) The compliance requirements are the same, whether the audit period is the auditee's fiscal year or the Federal fiscal year.

Sec. 3052.505 - Audit Reporting.

74. Q. An auditor making a program-specific audit intends to express an unqualified opinion on the auditee's programmatic compliance, but wishes to notify report users that a few items nevertheless require corrective action by the auditee. Can the auditor insert an "emphasis-of-a-matter" paragraph in his/her report to provide such information?

A. No. If the items requiring corrective action do not prevent the auditor from expressing an unqualified opinion, they are immaterial. There is no deficiency of which readers of the audit report need to be made aware. To call the reader's attention to them in this way would therefore be misleading.

Sec. 3052.520 -- Major Program Determination.

75. Q. How does the risk-based approach to identifying major programs affect the audit requirement?

A. It has no effect on whether a non-federal entity has a Federal audit requirement under Part 3052; that determination is made solely by the entity's level of expenditure under Federal programs. It does, however, affect the auditor's identification of major Federal programs, which the auditor must test for programmatic compliance. In making this determination, the old rules required the auditor to consider only the dollar amount the auditee received under each program. The new rules establish a process that entails consideration of other risk factors as

well. Examples of such factors include how long the auditee has operated the program, how recently the program has been audited for compliance, whether any findings from such audits remain unresolved, the program's complexity, turnovers in program personnel, etc. Risk factors such as these are described at 7 CFR 3052.525.

A program under which the auditee's Federal expenditures reach or exceed a threshold set at 7 CFR 3052.520(b) is known as a "Type A program." The auditor identifies Type A programs solely by dollars expended. Programs not classified as Type A are "Type B programs." Using professional judgment, the auditor identifies Type A and Type B programs as high or low risk on the basis of risk factors such as those stated at 7 CFR 3052.525. The auditor may then elect not to test certain low risk Type A programs for compliance and substitute high risk Type B programs. This risk analysis process is spelled out in greater detail at 7 CFR 3052.520(b) through (f). Section 3052.520(g) requires the auditor to document the process in the working papers.

3052.525 - Criteria for Federal Program Risk.

76. Q. The SMP is a small program that can never qualify as a major program at the State level. Must an auditor nevertheless test it for compliance because it is part of the CN Cluster? Can an auditor designate the CN Cluster as a low-risk Type A program under 7 CFR 3052.520(c)(1) if the SMP has not recently been audited at the State level?

A. The auditor can determine, as a matter of professional judgment, that the dollar amount of SMP funding expended by the State agency is immaterial to the CN Cluster as a whole. Once that determination is made, it follows that the results of testing compliance under this program would not affect the auditor's opinion on the State's compliance with CN Program requirements overall. The auditor can therefore express such an opinion without specifically testing SMP transactions. For the same reason, the lack of recent audit experience with the SMP would not, in and of itself, preclude designating the CN Cluster as a low-risk Type A program. The auditor must, of course, document such determinations in the working papers.

77. Q. Paragraphs 3052.525(a), 525(c)(2), and 525(d) all discuss the auditor's consideration of the risk inherent in a program as part of the required risk assessment. What is the relationship among these provisions?

A. Only major programs are tested for compliance, and 7 CFR sec. 3052.520(a) requires the auditor to identify major programs through a risk-based process. The auditor's risk assessment of each potentially major program must include consideration of:

(a) Current and prior audit experience with the program, including the assessment of the program's control risk as outlined in question 67, above (7 CFR sec. 3052.525(b));

(b) Oversight of program operations by the Federal awarding agency or pass-through entity (7 CFR sec. 3052.525(c)); and

(c) The program's **inherent risk** of noncompliance (7 CFR sec. 3052.525(d)).

All these factors affect the auditor's determination whether to test a program for compliance as a major program. (7 CFR sec. 3052.525(a))

Inherent risk is related to the program's basic nature, independent of whether or how effectively the auditee has mitigated such risk through internal/management controls over the program. (AICPA Statement of Position (SOP) 98-3, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards, March 17, 1998, paragraph 7.36) The auditor must consider whether inherent risk stems from: (a) the program's design, mission, clientele, etc.; (b) the phase of the program's life cycle nationwide (new programs vs. established programs, recent statutory or regulatory changes, etc.); and/or (c) the phase of the program's life cycle at the auditee organization (that is, the length of the auditee's experience operating the program).

If a Federal agency (with OMB concurrence) designates a program it administers as "high risk" under 7 CFR sec. 3052.525(c)(2), that

designation refers to the total risk assessment, not just to inherent risk. A Federal agency would consider auditing and monitoring results as well as the program's inherent risk in making this determination. The Compliance Supplement communicates this "high risk" designation to program operators and auditors.

The Compliance Supplement does not currently apply that designation to any FNS program. If it did, an auditor would be required to consider that information in assessing risk for that program. Our designation of a program as "high risk" would not, however, preclude an auditor from determining that the program was low risk for purposes of his/her audit. For example, the auditor could determine that the auditee had strong internal/management controls over the program and/or that prior audits of that auditee had found the program compliant. A "high risk" designation stated in the Compliance Supplement would represent the Federal Government's opinion; it would not preempt the auditor's professional judgment. (AICPA SOP 98-3, paragraph 7.35)

In addition to the considerations listed above, section 3052.525(a) encourages an auditor to consult the auditee's awarding agency when assessing a program's risk of noncompliance. This passage directs the auditor to the applicable FNS regional office when assessing risk at the State level, and to the applicable State agency if the auditee is a subgrantee. Ultimately, however, the determination of a program's risk of noncompliance and the related identification of the program as major or non-major are matters of auditor judgment.

3052.530 - Criteria for Low-Risk Auditee

78. Q. If a non-federal entity has a biennial audit cycle, how many audits with no findings are required to qualify the entity as a low-risk auditee under 7 CFR 3052.530?

A. A non-federal entity with a biennial audit cycle does not qualify as a low-risk auditee unless agreed to in advance by its cognizant or oversight agency for audit. (7 CFR 3052.530(a)) If a non-federal entity has obtained such agreement, it must meet the criteria at 7 CFR 3052.530 for the preceding two biennial audit periods.

ILLUSTRATIVE COMPLETED FORM SF-SAC, SINGLE AUDIT DATA COLLECTION FORM

Blank copies of the form and the related instructions may be obtained on the OMB's Home Page (**http://www.whitehouse.gov/OMB/**) or by calling **888-222-9907**. This illustrative, filled-in version is not available electronically.

INSTRUCTIONS FOR COMPLETION OF SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is OMB No. 0348-0057. The time required to complete this data collection form is estimated to average 30 hours for large auditees (i.e., auditees most likely to administer a large number of Federal awards) and 6 hours for all other auditees. These amounts reflect estimates of reporting burden on both auditees and auditors relating to the data collection form, including the time to review instructions, obtain the needed data, and complete and review the information collection.

Office of Management and Budget (OMB) Circular A-133 (the Circular), "Audits of States, Local Governments, and Non-Profit Organizations," requires non-Federal entities that expend $300,000 or more in a year in Federal awards to have an audit conducted in accordance with the Circular.

The Circular (§__. 320(b)) requires auditees to submit a completed Form SF-SAC (the form), along with other specified reports, to the Federal clearinghouse designated by OMB (currently the U.S. Bureau of the Census). Auditees are also required to send a copy of the reporting package (or written notification of no findings (§__. 320(e)) to any pass-through entity from which they receive Federal funds. Submissions to a pass-through entity should not include the form.

SUBMISSION TO FEDERAL CLEARINGHOUSE

Only an approved version of the form will be accepted. This means: an original or photocopy of the form, or a document produced from the approved word processing templates available at the website below. The form must be signed and dated by both the auditee and auditor. Submission of anything other than a complete form and reporting package will not be accepted.

WHO TO CONTACT WITH QUESTIONS

For audit related questions, please contact the Federal awarding agency involved or the auditee's Federal cognizant or oversight agency. Appendix III of the Compliance Supplement contains Federal agency contact information for A-133 audits.

For questions concerning the submission process or the form, contact the Federal Audit Clearinghouse (1.888.222.9907). Information can also be found on the Internet (http://harvester.census.gov/sac).

DESCRIPTION OF FORM

PART I – GENERAL INFORMATION

The auditee shall complete this section (except Items 4 and 7) and sign and date the certification statement provided in Item 6 (g).

- **Item 1 – Fiscal Year Ending Date For This Submission**

  Enter the last day of the fiscal period covered by the audit.

- **Item 2 – Type of Circular A-133 Audit**

  Check the appropriate box. §__.200 of the Circular requires non-Federal entities that expend $300,000 or more in a year in Federal awards to have a single audit conducted in accordance with §__.500, except when they elect to have a program-specific audit conducted in accordance with §__.235.

- **Item 3 – Audit Period Covered**

  Check the appropriate box. Annual audits cover 12 months and Biennial audits cover 24 months. If the audit period covered is neither Annual nor Biennial, mark "Other" and provide the number of months (excluding 12 and 24) covered in the space provided.

- **Item 4 – Date Received by Federal Clearinghouse**

  Skip this item (Federal Government use only).

- **Item 5 – Employer Identification Number (EIN)**

  (a) Auditee EIN

  Enter the auditee EIN, which is the 9-digit Taxpayer Identification Number assigned by the Internal Revenue Service (IRS). Also, using the spaces provided, enter the EIN on the top of each page.

  (b) Multiple EINs Covered in the Report

  Check the appropriate box to indicate whether the auditee (or components of an auditee covered by the audit) was assigned more than one EIN by the IRS. (Example: A Statewide audit covers many departments, each of which may have its own separate EIN.) If yes, indicate the principal EIN under 5 (a).

- **Item 6 – Auditee Information**

  (a-f) Enter auditee information.

  (g) A senior representative of the auditee (e.g., State controller, director of finance, chief executive officer, chief financial officer) shall sign the statement that the information on the form is accurate and complete as required by §__.320 of the Circular. Provide the name and title of the signatory and date of signature.

FORMS WITHOUT ALL ITEMS COMPLETED WILL BE RETURNED TO THE AUDITEE

INSTRUCTIONS FOR COMPLETION OF SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS – Continued

- **Item 7 – Auditor Information**

The auditor shall complete this item.

(a-f) Enter the name of the auditor that conducted the audit in accordance with the Circular. The auditor name may represent a sole practitioner, certified public accounting firm, State auditor, etc. Where multiple auditors or audit organizations are used to conduct the audit work, the lead or coordinating auditor shall provide their information in item 7 (a-f) and attach a sheet to the form with the same information about other auditors.

(g) The auditor listed in Part I, Item 7 (a) shall be the same auditor that signs the auditor statement. Additional auditors may sign the form, but only the first name listed will be entered into the database.

- **Item 8 – Federal Cognizant or Oversight Agency for Audit**

Check the appropriate box. Auditees expending more than $25 million a year have a Federal cognizant agency. Auditees expending less than $25 million a year have a Federal oversight agency.

- **Item 9 – Name of Federal Cognizant or Oversight Agency for Audit**

Check the appropriate box to indicate the name of the Federal cognizant or oversight agency for audit determined in accordance with §__.400(a) or (b) of the Circular. This will most often be the one Federal awarding agency that provides the predominant amount of direct funding. State and/or other pass-through entities should not be listed. Cognizant assignments are established every 5 years.

PART II – FINANCIAL STATEMENTS

The auditor shall complete this section of the form. All information for this section should be obtained from the audit reporting on the financial statements only.

PART III – FEDERAL PROGRAMS

The auditor shall complete this section of the form.

- **Item 1 – Type of Audit Report on Major Program Compliance**

If the audit report on all major program compliance is unqualified, check box 1. If the audit report for one or more major programs is other than unqualified, check boxes 2, 3, or 4, as applicable.

For example, if the audit report on major program compliance for an auditee with three major programs includes an unqualified opinion for one program, a qualified opinion for the second program, and a disclaimer of opinion for the third program, then check boxes 2 and 4, but not 1 and 3.

- **Item 2 – Dollar Threshold to Distinguish Type A and Type B Programs**

Enter the dollar threshold used to distinguish between Type A and Type B programs as defined in §_.520(b) of the Circular. The dollar threshold must be $300,000 or higher. Please round to the nearest dollar.

- **Item 3 – Low-Risk Auditee**

Indicate whether or not the auditee qualifies as a low-risk auditee under §__.530 of the Circular.

- **Item 4 – Audit Findings**

Indicate whether or not the audit disclosed any audit findings which the auditor is required to report under §__.510(a) of the Circular A-133. If marked Yes, the answers for Part III, Item 7 must reflect the findings. If marked No, the answer for Part III, Item 7 must not show any findings.

- **Item 5 – Federal Agencies Required to Receive the Reporting Package**

Check the appropriate box to indicate each Federal awarding agency required to receive a copy of the reporting package pursuant to §__.320(d) of the Circular. A Federal agency should be marked if the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the Federal awarding agency provided directly OR the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that Federal awarding agency provided directly. If no Federal awarding agency is required to receive a copy of the reporting package, mark "None." Note that the auditee must send the Clearinghouse one reporting package for each Federal agency selected in this question, plus one archival reporting package.

- **Item 6 – Federal Awards Expended**

The information to complete columns (a), (b), and (c) shall be obtained from the Schedule of Expenditures of Federal Awards. It is important to note that Item 6 shall include the required information for each Federal program presented in the Schedule of Expenditures of Federal Awards (and notes thereto), regardless of whether audit findings were reported. If additional space is required, photocopy page 3 and attach the additional page(s) to the form, and enter the total for all pages in the "Total Federal Awards Expended" block on the last page.

FORMS WITHOUT ALL ITEMS ANSWERED WILL BE RETURNED TO THE AUDITEE

INSTRUCTIONS FOR COMPLETION OF SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS – Continued

Column (a) – CFDA Number

Enter the number assigned to the Federal program in the Catalog of Federal Domestic Assistance (CFDA). Consult the Federal awarding agency or pass-through entity to obtain this number.

For research and development programs that do not have a CFDA number, enter the Federal agency's two-digit prefix (as listed in Appendix 1) followed by a period and the letters "RD". For example, an HHS research program would be entered as "93.RD".

For other programs that do not have a CFDA number, enter only the Federal agency's two-digit prefix (as listed in Appendix 1). For programs with contract numbers, you may follow the two-digit prefix with a period and the contract number. For example, an HHS program with a contract number would be entered as "93.999999999".

Column (b) – Name of Federal Program

Enter the name of the Federal program.

Column (c) – Amount of Federal Expenditures

Enter the amount of expenditures included in the Schedule of Expenditures of Federal Awards (Schedule) for each Federal program. It is important to note that amounts shall be provided for the value of Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end, regardless of whether such amounts were presented in the Schedule or in a note to the Schedule. Please round to the nearest dollar.

- **Item 7 – Audit Findings and Questioned Costs**

The rows of Item 7 directly correspond to matching rows in Item 6. The information to complete columns (a), (b), (c), (d) and (e) shall be obtained from the Schedule of Findings and Questioned Costs prepared by the auditor. If the Schedule of Findings and Questioned Costs does not provide information for a specific row and if there are no audit findings, questioned costs, or internal control findings, the auditor should mark O, N/A, C, and N/A for items (b),(c),(d), and (e), respectively.

Please note that Part III, Item 4 and Part III, Item 7 are directly related. If Item 4 indicates findings, then Item 7 must indicate findings. If Item 4 indicates no findings, then all items in Item 7 must indicate no findings.

Column (a) – Major Program

Indicate whether or not the Federal program is a major program, as defined in §_.520 of the Circular.

Column (b) – Type of Compliance Requirement

Using the list provided on the form in footnote 2 on page 3, enter the letters that correspond to the type(s) of compliance requirements applicable to the audit findings and questioned costs reported for each Federal program. Do not list all compliance requirements that were tested. If there were no audit findings or questioned costs, enter O for "None".

Column (c) – Questioned Costs

Enter the amount of questioned costs by Federal program. If no questioned costs were reported, enter N/A for "Not Applicable." Please round to the nearest dollar.

Column (d) – Internal Control Findings

Check the appropriate box, using the list provided on the form in footnote 3 on page 3, that corresponds to the internal control findings that apply to the Federal program. If all findings for the program are Material Weaknesses, enter A. If findings for the program include some Reportable Conditions that are Material Weaknesses and some Reportable Conditions that are not, enter A and B. If findings for the program include only Reportable Conditions that are not Material Weaknesses, enter B. If there are no findings for the program, enter C for "None Reported."

Column (e) – Audit Finding Reference Number(s)

Enter the audit finding reference number(s) for audit findings included in the Schedule of Findings and Questioned Costs. If no audit findings were reported, enter N/A for "Not Applicable."

FORMS WITHOUT ALL ITEMS ANSWERED WILL BE RETURNED TO THE AUDITEE

APPENDIX 1
Federal AgencyTwo-Digit Prefix List

01 African Development Foundation
02 Agency for International Development
10 Department of Agriculture
23 Appalachian Regional Commission
88 Architectural & Transportation Barriers Compliance Board
13 Central Intelligence Agency
11 Department of Commerce
29 Commission on Civil Rights
78 Commodity Futures Trading Commission
87 Consumer Product Safety Commission
94 Corporation for National & Community Service
12 Department of Defense
84 Department of Education
81 Department of Energy
66 Environmental Protection Agency
30 Equal Employment Opportunity Commission
32 Federal Communications Commission
83 Federal Emergency Management Agency
33 Federal Maritime Commission
34 Federal Mediation and Conciliation Service
18 Federal Reserve System
36 Federal Trade Commission
39 General Services Administration
40 Government Printing Office
93 Department of Health and Human Services
14 Department of Housing and Urban Development
03 Institute for Museum Services
04 Inter-American Foundation
15 Department of Interior
61 International Trade Commission
41 Interstate Commerce Commission
16 Department of Justice
17 Department of Labor
09 Legal Services Corporation
42 Library of Congress
91 Miscellaneous Foundations & Commissions
99 Miscellaneous
43 National Aeronautics & Space Administration
89 National Archives & Records Administration
92 National Council on Disability
44 National Credit Union Administration
05 National Endowment for the Arts
06 National Endowment for the Humanities
68 National Gallery of Art
46 National Labor Relations Board
47 National Science Foundation
77 Nuclear Regulatory Commission
07 Office of National Drug Control Policy
27 Office of Personnel Management
70 Overseas Private Investment Corporation
08 Peace Corps
86 Pension Benefit Guaranty Corporation
22 Postal Service
53 President's Committee on Employment of the Handicapped
57 Railroad Retirement Board
85 Scholarship Foundations
58 Securities and Exchange Commission
59 Small Business Administration
60 Smithsonian Institution
96 Social Security Administration
19 Department of State
62 Tennessee Valley Authority
20 Department of Transportation
21 Department of Treasury
82 United States Information Agency
64 Department of Veterans Affairs

FORMS WITHOUT ALL ITEMS ANSWERED WILL BE RETURNED TO THE AUDITEE

OMB No. 0348-0057

FORM **SF-SAC** (8-97)

U.S. DEPARTMENT OF COMMERCE - BUREAU OF THE CENSUS
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on

AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO **Single Audit Clearinghouse**
1201 E. 10th Street
Jeffersonville, IN 47132

PART I GENERAL INFORMATION *(To be completed by auditee, except for Item 7)*

1. Fiscal year ending date for this submission
Month 12 / Day 31 / Year 98

2. Type of Circular A-133 audit
1 ☒ Single audit 2 ☐ Program-specific audit

3. Audit period covered
1 ☒ Annual 3 ☐ Other – Months
2 ☐ Biennial

FEDERAL GOVERNMENT USE ONLY

4. Date received by Federal clearinghouse

5. Employer Identification Number (EIN)
a. Auditee EIN 1 2 3 4 5 6 7 8 9
b. Are multiple EINs covered in this report? 1 ☐ Yes 2 ☒ No

6. AUDITEE INFORMATION

a. Auditee name
SMALLTOWN CHARITIES, INC.

b. Auditee address *(Number and street)*
459 MAIN STREET

City SMALLTOWN

State ANYSTATE ZIP Code 99999

c. Auditee contact
Name HELEN J. SMITH
Title EXECUTIVE DIRECTOR

d. Auditee contact telephone
(901) 888 - 9999

e. Auditee contact FAX *(Optional)*
( ) -

f. Auditee contact E-mail *(Optional)*

g. AUDITEE CERTIFICATION STATEMENT – This is to certify that, to the best of my knowledge and belief, the auditee has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II,** and **III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Helen J. Smith
Signature of certifying official

Date
Month 02 / Day 20 / Year 99

HELEN J. SMITH
Name/Title of certifying official
EXECUTIVE DIRECTOR

7. AUDITOR INFORMATION *(To be completed by auditor)*

a. Auditor name
SMITH, JONES, & BROWN, CPAs

b. Auditor address *(Number and street)*
775 FIRST STREET

City METROPOLIS

State ANYSTATE ZIP Code 22997

c. Auditor contact
Name JOHN J. SMITH
Title MANAGING PARTNER

d. Auditor contact telephone
(901) 777 - 8888

e. Auditor contact FAX *(Optional)*
( ) -

f. Auditor contact E-mail *(Optional)*

g. AUDITOR STATEMENT – The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 5 and 6, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II** and **III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor John J. Smith

Date
Month 02 / Day 22 / Year 99

EIN: 1 2 3 4 5 6 7 8 9

PART I GENERAL INFORMATION – Continued

8. Indicate whether the auditee has either a Federal cognizant or oversight agency for audit. *(Mark (X) one box)*

1 ☐ *Cognizant agency* 2 ☒ *Oversight agency*

9. Name of Federal cognizant or oversight agency for audit *(Mark (X) one box)*

- 01 ☐ African Development Foundation
- 02 ☐ Agency for International Development
- 10 ☒ Agriculture
- 11 ☐ Commerce
- 94 ☐ Corporation for National and Community Service
- 12 ☐ Defense
- 84 ☐ Education
- 81 ☐ Energy
- 66 ☐ Environmental Protection Agency
- 83 ☐ Federal Emergency Management Agency
- 34 ☐ Federal Mediation and Conciliation Service
- 39 ☐ General Services Administration
- 93 ☐ Health and Human Services
- 14 ☐ Housing and Urban Development
- 03 ☐ Institute for Museum Services
- 04 ☐ Inter-American Foundation
- 15 ☐ Interior
- 16 ☐ Justice
- 17 ☐ Labor
- 43 ☐ National Aeronautics and Space Administration
- 89 ☐ National Archives and Records Administraton
- 05 ☐ National Endowment for the Arts
- 06 ☐ National Endowment for the Humanities
- 47 ☐ National Science Foundation
- 07 ☐ Office of National Drug Control Policy
- 08 ☐ Peace Corps
- 59 ☐ Small Business Administration
- 96 ☐ Social Security Administration
- 19 ☐ State
- 20 ☐ Transportation
- 21 ☐ Treasury
- 82 ☐ United States Information Agency
- 64 ☐ Veterans Affairs
- ☐ Other – *Specify:*

PART II FINANCIAL STATEMENTS *(To be completed by auditor)*

1. Type of audit report *(Mark (X) one box)*

1 ☒ Unqualified opinion 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 ☐ Yes 2 ☒ No

3. Is a reportable condition disclosed? 1 ☒ Yes 2 ☐ No – *SKIP to Item 5*

4. Is any reportable condition reported as a material weakness? 1 ☐ Yes 2 ☒ No

5. Is a material noncompliance disclosed? 1 ☐ Yes 2 ☒ No

PART III FEDERAL PROGRAMS *(To be completed by auditor)*

1. Type of audit report on major program compliance

1 ☒ Unqualified opinion 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. What is the dollar threshold to distinguish Type A and Type B programs §___ .520(b)?

$ 300,000

3. Did the auditee qualify as a low-risk auditee (§___ .530)?

1 ☐ Yes 2 ☒ No

4. Are there any audit findings required to be reported under §___ .510(a)?

1 ☒ Yes 2 ☐ No

5. Which Federal Agencies are required to receive the reporting package? *(Mark (X) all that apply)*

- 01 ☐ African Development Foundation
- 02 ☐ Agency for International Development
- 10 ☐ Agriculture
- 11 ☐ Commerce
- 94 ☐ Corporation for National and Community Service
- 12 ☐ Defense
- 84 ☐ Education
- 81 ☐ Energy
- 66 ☐ Environmental Protection Agency
- 83 ☐ Federal Emergency Management Agency
- 34 ☐ Federal Mediation and Conciliation Service
- 39 ☐ General Services Administration
- 93 ☐ Health and Human Services
- 14 ☐ Housing and Urban Development
- 03 ☐ Institute for Museum Services
- 04 ☐ Inter-American Foundation
- 15 ☐ Interior
- 16 ☐ Justice
- 17 ☐ Labor
- 43 ☐ National Aeronautics and Space Administration
- 89 ☐ National Archives and Records Administraton
- 05 ☐ National Endowment for the Arts
- 06 ☐ National Endowment for the Humanities
- 47 ☐ National Science Foundation
- 07 ☐ Office of National Drug Control Policy
- 08 ☐ Peace Corps
- 59 ☐ Small Business Administration
- 96 ☐ Social Security Administration
- 19 ☐ State
- 20 ☐ Transportation
- 21 ☐ Treasury
- 82 ☐ United States Information A
- 64 ☐ Veterans Affairs
- 00 ☒ None
- ☐ Other – *Specify:*

EIN: 1 2 3 4 5 6 7 8 9

FORM SF-SAC (8-97)

PART III **FEDERAL PROGRAMS – Continued**

6. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR			7. AUDIT FINDINGS AND QUESTIONED COSTS				
CFDA number [1] (a)	Name of Federal program (b)	Amount expended (c)	Major program (a)	Type of compliance requirement[2] (b)	Amount of questioned costs (c)	Internal control findings[3] (d)	Audit finding reference number(s) (e)
10.559	SUMMER FOOD SERVICE PROGRAM	$ 250,000	1 ☐ Yes 2 ☒ No	O	$ N/A	1 ☐ A 3 ☒ C 2 ☐ B	
10.569	THE EMERGENCY FOOD ASST. PROG.	$ 2,500,000	1 ☒ Yes 2 ☐ No	E, N	$ 25,000	1 ☐ A 3 ☐ C 2 ☒ B	1.a.
10.570	NUTRITION ASSISTANCE TO ELDERLY	$ 250,000	1 ☐ Yes 2 ☒ No	O	$ N/A	1 ☐ A 3 ☒ C 2 ☐ B	
93.045	SPECIAL SERVICES FOR THE AGING: TITLE III - NUTRITION SERVICES	$ 2,500,000	1 ☒ Yes 2 ☐ No	O	$ N/A	1 ☐ A 3 ☒ C 2 ☐ B	
		$	1 ☐ Yes 2 ☐ No		$	1 ☐ A 3 ☐ C 2 ☐ B	
		$	1 ☐ Yes 2 ☐ No		$	1 ☐ A 3 ☐ C 2 ☐ B	
		$	1 ☐ Yes 2 ☐ No		$	1 ☐ A 3 ☐ C 2 ☐ B	
		$	1 ☐ Yes 2 ☐ No		$	1 ☐ A 3 ☐ C 2 ☐ B	
		$	1 ☐ Yes 2 ☐ No		$	1 ☐ A 3 ☐ C 2 ☐ B	
		$	1 ☐ Yes 2 ☐ No		$	1 ☐ A 3 ☐ C 2 ☐ B	
TOTAL FEDERAL AWARDS EXPENDED →		$ 5,500,000	*IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS*				

[1] Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available.

[2] Type of compliance requirement *(Enter the letter(s) of all that apply to audit findings and questioned costs reported for each Federal program.)*

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act
- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of funds
- I. Procurement
- J. Program income
- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None

[3] Type of internal control findings *(Mark (X) all that apply)*

- A. Material weaknesses
- B. Reportable conditions
- C. None reported

*U.S.GPO:1997-549-078/80114

ILLUSTRATIVE ENGAGEMENT LETTER FOR AGREED-UPON PROCEDURES ENGAGEMENT

October 10, 1998

Anystate Department of Education
Child Nutrition Section
999 State Office Building
Metropolis, Anystate 29999

We are pleased to confirm our understanding of the agreed-upon procedures we are to perform for the Anystate Department of Education related to compliance by Smalltown Day Care, Inc. with certain requirements applicable to the Child and Adult Care Food Program (CACFP)(CFDA No. 10.558). The period to be covered by the agreed-upon procedures will be October 1, 1997 through September 30, 1998. Management of the Anystate Department of Education is responsible for establishing the scope of the agreed-upon procedures with the objective of meeting its subgrantee monitoring requirements under 7 CFR 226.6(l), 7 CFR 226.8, and 7 CFR Part 3052. The management of the Smalltown Day Care, Inc. is responsible for compliance with requirements applicable to its operation of the CACFP as stated in its subgrant agreement with the Anystate Department of Education.

Management's Assertions:

1. Management of Smalltown Day Care, Inc. asserts that it has complied, in all material respects, with the following compliance requirements during the period October 1, 1997 through September 30, 1998:

   a. Activities Allowed or Unallowed:

      (1) Meals claimed for reimbursement must:

(a) be served to eligible children;
(b) be supported by meal counting methods that generate accurate counts, and by records evidencing that such counts had been made; and
(c) meet Federal nutritional requirements at 7 CFR 226.20

(2) CACFP reimbursement payments applied to administrative costs must be in accordance with the management plan approved for Smalltown Day Care, Inc. by the Anystate Department of Education. (7 CFR 226.6(f)(2))

(3) An institution operating the CACFP must operate a non-profit food service principally for the benefit of enrolled participants. CACFP reimbursement payments must be used solely for the operation and improvement of the nonprofit food service. (7 CFR 226.15(e)(12))

b. Allowable Costs/Cost Principles:

All administrative and meal production costs claimed for reimbursement must conform to the Federal cost principles at 7 CFR 3015.193.

c. Eligibility:

(1) Meals claimed for reimbursement may be served only to children as defined at 7 CFR 226.2.

(2) Claims for meals served free or at reduced price must be supported by eligibility determinations made in accordance with regulations at 7 CFR 226.23.

d. Reporting:

All CACFP claims for reimbursement submitted to the Anystate Department of Education must be supported by records substantiating the accuracy of meal counts and costs reported therein.

2. The Anystate Department of Education and Smalltown Day Care, Inc. are the specified users of the practitioner's report.

3. The Anystate Department of Education acknowledges its responsibility for the sufficiency of the procedures to be performed.

Practitioner's Responsibilities:

The practitioner's responsibility is to:

1. Carry out the procedures enumerated below and report the findings in accordance with the standards set forth in *Statements on Standards for Attestation Engagements - Agreed-Upon Procedures*, or SSAE No. 4, issued by the American Institute of Certified Public Accountants. Such responsibility will be sufficient in scope to determine only the results of the agreed-upon procedures set out below.

2. Prepare a written report for the specified users with our findings and questioned costs.

3. Include in the report a disclaimer of opinion on the assertions.

4. Include in the report any applicable restrictions on its use.

Procedures to be Performed:

1. Activities Allowed or Unallowed:

a. Determine by observation of one or more meal services (breakfast, lunch, supplement, supper) that all meals and supplements served contained the components required by 7 CFR 226.20. The practitioner is not expected to measure or weigh components to determine that the required quantities are present. The practitioner shall report as ineligible for reimbursement any meal found lacking any component.

b. Inspect the institution's menus for two claim months in order to determine that the institution had planned meals and supplements to meet the meal pattern requirements at 7 CFR 226.20. Menus should be available for inspection, regardless of whether the institution prepares meals on-site or purchases them from a vendor.

c. If the institution prepares meals on-site, inspect meal production records for the two selected claim months to determine that the quantities of product used are reasonable for the number of meals reported served. The practitioner shall report a finding if the quantities used are insufficient to support the number of meals served by ten percent or more.

d. Determine by inquiry and observation how the institution obtains counts of meals served. Take an independent count of meals served at one or more meal services and compare it to the count(s) recorded by the institution's staff for the same meal service(s). The practitioner will report a finding if the practitioner's count differs from the institution's by five percent or more.

e. Inspect the institution's accounting records to determine that they provide for the separate identification of assets, liabilities, and transactions relating to the nonprofit food service.

f. Determine by inquiry how the institution accounts for CACFP advance and reimbursement payments received from the Anystate

Department of Education. Trace all such payments the institution received during four claim months to the institution's food service account in order to determine that the institution promptly credits such receipts to the nonprofit food service.

g. Test all transfers of funds out of the institution's nonprofit food service account to determine that they had supported CACFP purposes.

h. Test records for three claim months to determine that the portion of reimbursement payments the institution applied to administrative costs did not exceed the portion authorized by the Anystate Department of Education, and that the institution passed the remainder through to child care centers under its oversight.

2. Allowable Costs/Cost Principles:

a. Trace meal production and administrative costs reported on three monthly claims for reimbursement to source documentation in order to determine that they included no costs that are unallowable under 7 CFR 3015.193. In this regard, the cost of meals served to adults engaged in operating the meal service may be charged to the CACFP but the meals themselves are not eligible for reimbursement.

b. If the institution operates other Federal programs besides the CACFP, test records for the three claim months to determine that costs charged to the CACFP were not also charged to such other program(s). Report as questioned costs any such duplicate charges that aggregate $100 or more.

3. Eligibility:

Inspect household applications and/or alternative documentation to determine that institution staff had correctly classified the children as

eligible for free meals, eligible for reduced price meals, or ineligible for either category.

4. Reporting:

   a. Compare the institution's daily meal counts to its actual attendance as documented by attendance records. If actual attendance does not support the number of meals claimed, determine by inquiry whether seconds are/were served and claimed for reimbursement. If that had occurred, determine by inquiry and inspection of records how the institution controls meal production with the objective of serving one meal per child per meal service per day.

   b. Inspect attendance records for one claim month to determine that actual attendance by children eligible for free and reduced price meals supports the number of meals claimed for reimbursement in each category during that month. If the Anystate Department of Education has approved the use of claiming percentages, determine that they accurately reflect the eligibility determinations.

   c. Trace meals claimed for reimbursement in each of three claim months, by category (free, reduced price, paid) and type of meal service, to supporting documents, including records of daily meal counts taken at the time of meal service. If claiming percentages are used, inspect records to determine that the claiming percentages were applied to the total meal counts as prescribed by the Anystate Department of Education.

Rates and Fees:

We will perform the above procedures at our standard hourly rates which range from $60 to $125. We anticipate that the work will be completed in 20 hours. The billing will be submitted to the Anystate Department of

Education at the completion of the engagement and will be due upon receipt.

We appreciate the opportunity to be of service to the Anystate Department of Education and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Respectfully submitted,

Managing Partner
Smith, Jones, & Brown, CPAs, Inc.

ACCEPTANCE

This letter correctly states the understanding of the specified users:

Anystate Department of Education	Smalltown Day Care, Inc.
By:_____	By:_____
Title:_____	Title:_____
Date:_____	Date:_____

ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER FOR AGREED-UPON PROCEDURES ENGAGEMENT

November 16, 1998

Smith, Jones, & Brown, CPAs, Inc.
775 First Street
Metropolis, Anystate 22997

Dear Sir/Madam:

In connection with your agreed-upon procedures engagement for the Anystate Department of Education, related to our operation of the Child and Adult Care Food Program (CACFP)(CFDA No. 10.558) during the period October 1, 1997 through September 30, 1998, we confirm, to the best of our knowledge and belief, the following representations made to you during your performance of the agreed-upon procedures.

1. We are responsible for operating the CACFP in compliance with the following requirements:

   a. Activities Allowed or Unallowed:

      (1) Meals claimed for reimbursement must:

         (a) be served to eligible children;
         (b) be supported by meal counting methods that generate accurate counts, and by records evidencing that such counts had been made; and
         (c) meet Federal nutritional requirements at 7 CFR 226.20

(2) CACFP reimbursement payments applied to administrative costs must be in accordance with the management plan approved for this institution by the Anystate Department of Education. (7 CFR 226.6(f)(2))

(3) The CACFP must be operated on a non-profit basis. All revenues generated by the program's operation must be used solely for the operation and improvement of the program. (7 CFR 226.15(e)(12))

b. Allowable Costs/Cost Principles:

All administrative and meal production costs charged to the institution's nonprofit food service must conform to the Federal cost principles at 7 CFR 3015.193.

c. Eligibility:

(1) Meals claimed for reimbursement may be served only to children as defined at 7 CFR 226.2.

(2) Claims for meals served free or at reduced price must be supported by eligibility determinations made in accordance with regulations at 7 CFR 226.23.

d. Reporting:

All CACFP claims for reimbursement submitted to the Anystate Department of Education must be supported by records substantiating the accuracy of meal counts reported therein.

2. We have made available to you all:

a. Financial records and related data pertaining to our operation of the CACFP during the period October 1, 1997 through September 30, 1998.

b. Known matters contradicting our assertions of compliance with the requirements stated in 1., above, of which there are none.

3. To the best of our knowledge and belief, there have been no:

a. Irregularities involving management, employees, or contractors who have significant roles in the administration of or performance under the CACFP.

b. Communications from regulatory or oversight agencies concerning noncompliance with requirements of our agreement with the Anystate Department of Education for the operation of the CACFP.

4. We have no undisclosed plans or intentions that may materially affect our operation of the CACFP under our agreement with the Anystate Department of Education.

Smalltown Day Care, Inc.

Signature:_____

Title:_____

Date:_____

ILLUSTRATIVE PRACTITIONER'S REPORT ON APPLYING AGREED-UPON PROCEDURES TO A SUBGRANTEE

Anystate Department of Education
Child Nutrition Section
999 State Office Building
Metropolis, Anystate 22999

Executive Director
Smalltown Day Care, Inc.
225 Main Street
Smalltown, Anystate 22222

We have performed the procedures enumerated below, which were agreed to by the Anystate Department of Education solely to assist that agency in meeting its subgrantee monitoring requirements over Federal awards in accordance with 7 CFR 226.6(l), 7 CFR 226.8, and 7 CFR Part 3052. We performed this agreed-upon procedures engagement in accordance with standards for such engagements established by the American Institute of Certified Public Accountants.

The sufficiency of the procedures performed is solely the responsibility of the Anystate Department of Education. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report was requested or for any other purpose.

Procedures Performed:

1. Activities Allowed or Unallowed:

   a. We determined by observation of two meal services (lunch and supplement) that all meals and supplements served contained the components required by 7 CFR 226.20. In accordance with the

terms of the engagement, we did not measure or weigh components to determine that that required quantities were present.

b. We inspected the institution's menus for two claim months in order to determine that the institution had planned meals and supplements to meet the meal pattern requirements at 7 CFR 226.20. The institution prepares meals on-site.

c. We inspected meal production records for the two selected claim months to determine that the quantities of product used were reasonable for the number of meals reported served.

d. We determined by inquiry and observation how the institution obtains counts of meals served. We took an independent count of lunches and supplements served on each day of our field work and compared our counts to the corresponding counts recorded by the institution's staff.

e. We inspected the institution's accounting records to determine that they provide for the separate identification of assets, liabilities, and transactions relating to the nonprofit food service.

f. We determined by inquiry how the institution accounts for CACFP advance and reimbursement payments received from the Anystate Department of Education. We traced all such payments the institution received during the months of October and November 1997 and March and June 1998 to the institution's food service account in order to determine that the institution promptly credits such receipts to the nonprofit food service.

g. We tested all transfers of funds out of the institution's nonprofit food service account during the period covered by the engagement to determine that they had supported CACFP purposes.

h. We tested records for the months of October 1997 and March and June 1998 to determine whether the portion of reimbursement payments the institution applied to administrative costs exceeded the portion authorized by the Anystate Department of Education, and that the institution passed the remainder through to child care centers under its oversight.

2. Allowable Costs/Cost Principles:

a. We traced meal production and administrative costs reported for October 1997 and March and June 1998 to source documentation, in order to determine that they included no costs that were unallowable under 7 CFR 3015.193.

b. We tested records for the same three claim months to determine that costs charged to the CACFP were not also charged to the Head Start Program, which the institution operates under a grant from the Administration for Children and Families, Department of Health and Human Services.

3. Eligibility:

We inspected household applications and alternative documentation to determine that institution staff had correctly classified the children as eligible for free meals, eligible for reduced price meals, or ineligible for either category.

4. Reporting:

a. We traced meals and supplements reported in the institution's October 1997 and March and June 1998 claims for reimbursement to supporting documents, including records of daily meal counts taken at the time of meal service.

b. We compared the institution's daily meal counts to its actual attendance as documented by attendance records. We determined by inquiry and observation whether seconds were served and claimed for reimbursement. We determined by inquiry and inspection of records how the institution controls meal production with the objective of serving one meal per child per meal service per day.

c. We inspected attendance records for the month of March 1998 to determine that actual attendance by children eligible for free and reduced price meals supported the number of meals claimed for reimbursement in each category during that month.

Findings and Questioned Costs:

We found the following noncompliance with the requirements tested:

Finding 98-1.

1. Condition: During the three months we tested, the institution applied $28,500 in reimbursement payments to its administrative costs.

2. Criteria: Program regulations at 7 CFR sec. 226.11(d) authorize a State agency administering the CACFP to limit the amount of reimbursement payments a sponsor of child care centers may apply to its own administrative costs. The management plan approved for Smalltown Day Care, Inc. by the Anystate Department of Education provided for the application of $8,000 per month, or $24,000 for the three months we tested, to administrative costs. The balance of reimbursement payments was to be passed through to the centers.

3. Cause: Turnover of institution staff and insufficient training in program procedures for new staff led to the incorrect use of reimbursement payments and incorrect claims preparation.

4. Effect: The centers under the institution's sponsorship were underpaid a total of $4,500 for the three months we tested.

5. Recommendations: We recommend that Anystate Department of Education:

   a. Require Smalltown Day Care, Inc. to immediately disburse to each center under its sponsorship the portion of the $4,500 inappropriately applied to administrative costs that the center would have received had proper procedures been followed.

   b. Determine whether this condition occurred in claim months other than those we tested; and, if so, require Smalltown Day Care, Inc. to disburse to the centers the amounts inappropriately applied to administrative costs in those months.

   c. Require Smalltown Day Care, Inc. to provide staff training in program procedures.

6. Questioned Cost: None.

These agreed-upon procedures do not constitute an examination, the objective of which is the expression of an opinion on Smalltown Day Care, Inc.'s compliance with the compliance requirements identified above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Anystate State Department of Education and Smalltown Day Care, Inc., and should not be used by those who have not agreed to the procedures and taken responsibility for the

ILLUSTRATIVE PRACTITIONER'S REPORT

sufficiency of the procedures for their purposes. This report is not a matter of public record, and its distribution is limited to the two parties designated above.

Smith, Jones, & Brown, CPAs, Inc.
November 28, 1998

SUGGESTED PRESENTATIONS OF THE CHILD NUTRITION CLUSTER IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

EXAMPLE 1 - Focus on Assistance Component:

U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through - State Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	$xx,xxx,xxx	
Summer Food Service Program for Children	10.559	x,xxx,xxx	
Non-Cash Assistance Subtotal			$xx,xxx,xxx
Cash Assistance:			
School Breakfast Program	10.553	$xxx,xxx,xxx	
National School Lunch Program	10.555	xxx,xxx,xxx	
Special Milk Program for Children	10.556	xx,xxx	
Summer Food Service Program for Children	10.559	x,xxx,xxx	
Cash Assistance Subtotal			xxx,xxx,xxx
Total for Program (Cluster)			$xxx,xxx,xxx
Total for Federal Grantor Agency			

EXAMPLE 2 - Focus on Categorical Programs:

U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through - State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program - Cash Assistance	10.553		$xx,xxx,xxx
National School Lunch Program	10.555		
Cash Assistance		$xx,xxx,xxx	
Non-Cash Assistance (Food Distribution)		x,xxx,xxx	
National School Lunch Program Subtotal			xx,xxx,xxx
Special Milk Program for Children - Cash Assistance	10.556		xx,xxx
Summer Food Service Program for Children	10.559		
Cash Assistance		x,xxx,xxx	
Non-Cash Assistance (Food Distribution)		xxx,xxx	
Summer Food Service Program Subtotal			x,xxx,xxx
Total for Program (Cluster)			$xx,xxx,xxx
Cash Assistance Subtotal		$xx,xxx,xxx	
Non-Cash Assistance (Food Distribution) Subtotal		$x,xxx,xxx	

Exhibit F
Page 1 of 2

CROSS REFERENCE BETWEEN QUESTIONS IN PRIOR AND CURRENT Q & As

1999	1998	1999	1998
1	1	31	21
2	2	32	22
3	3	33	23
4 (revised)	4	34	24
5	5	35 (new)	--
6	6	36	25
7	7	37	26
8	8	38	27
9	9	39	28
10	10	40	29
11	11	41 (revised)	30
12 (revised)	12	42 (new)	--
13	13	43	31
14 (new)	--	44	32
15 (new)	--	45	33
16 (new)	--	46	34
17 (revised)	14	--	(deleted) 35
18 (new)	--	47	36
19 (new)	--	48	37
20 (new)	--	--	(deleted) 38
21	15	49 (revised)	39
22	16	50 (new)	--
23	17	51 (revised)	40
24	18	52 (new)	--
25 (new)	--	53 (new)	--
26	19	54 (new)	--
27 (revised)	20	55	42
28 (new)	--	56 (revised)	43
29 (new)	--	57	41
30 (new)	--	58 (revised)	44

CROSS REFERENCE BETWEEN QUESTIONS IN PRIOR AND CURRENT Q & As

1999	1998	1999	1998
59 (new)	--	71 (new)	--
60 (new)	--	72 (new)	--
61 (new)	--	73 (new)	--
62 (new)	--	74 (new)	--
63	45	75	53
64	46	76	54
65 (revised)	47	77 (revised)	55
66	48	78 (new)	--
67 (revised)	49		
68 (revised)	50		
69	51		
70	52		