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DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
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ADP BULLETIN

Title

ANNUAL OMB CIRCULAR A-133 REMINDER LETTER FOR FY 2000-01

Issue Date: 5-9-02

Issue No. 02-8

Expiration Date: Through Next Annual OMB Circular A-133 Reminder Letter

Deputy Director Approval
(SIGNED BY)

Ann Horn, Deputy Director
Division of Administration

Function:
[ ]Information Management
[ ]Quality Assurance
[ ]Service Delivery
[X]Fiscal
[ ]Administration

Supersedes Bulletin/ADP Letter No.

ADP # 00-10

PURPOSE

The purpose of this Bulletin is to: (1) remind counties of their responsibilities under the Office of Management and Budget (OMB) Circular A-133 (June 24, 1997 Revision); (2) disseminate OMB Circular A-133 information and specific requirements that impact counties, private non-profit subcontractors, and independent auditors; (3) identify the audit requirements as a result of the Substance Abuse and Crime Prevention Act of 2000 (SACPA) funding initiated in State Fiscal Year (SFY) 2000-01; and (4) disseminate the specific changes made by the Comptroller General of United States and head of General Accounting Office (GAO) regarding auditor independence requirements.

This Bulletin includes the following:

- Specific audit requirements of OMB Circular A-133
- Sanctions for noncompliance with OMB Circular A-133
- Problems noted during single audit reviews required by OMB Circular A-133
- Impact of the Substance Abuse and Crime Prevention Act of 2000 (SACPA) on county audit requirements.
- Impact of revised auditor independence requirements per Comptroller General of United States and the head of the GAO, on county audit requirements.

DISCUSSION

1. **Specific Audit Requirements**

   Pursuant to OMB Circular A-133, the counties shall require and ensure that subrecipients expending $300,000 or more in federal awards in a year have a single or program-specific audit performed.

a) The audit shall be performed in accordance with OMB Circular A-133 (revised June 24, 1997), Audits of States, Local Governments, and Non-Profit Organizations.

b) The audit shall be conducted in accordance with generally accepted auditing standards; and "Government Auditing Standards," 1994 Revision, issued by the Comptroller General of the United States.

   A copy of the audit performed in accordance with OMB Circular A-133 shall be submitted to the Department of Alcohol and Drug Programs (ADP) within 30 days of completion of the audit, but not later than nine months following the end of the subrecipient's fiscal year.

c) The cost of the audit made in accordance with the provisions of OMB Circular A-133 can be charged to applicable federal awards. Where apportionment of the audit cost is necessary, such apportionment shall be made in accordance with generally accepted accounting principles, but shall not exceed the proportionate amount that the award represents of the subrecipient's total revenue.

d) The work papers and the audit reports shall be retained for a minimum of three years from the date of the audit report and longer if the independent auditor is notified in writing by the State to extend the retention period.

e) Audit work papers shall be made available upon request to ADP, and copies shall be made as is reasonable and necessary.

f) The counties, in coordination with ADP, shall ensure that subrecipients are responsible for follow-up and corrective action on any audit findings in the single or program-specific audit reports.

g) Single audit and program specific audits are to be forwarded to:

Department of Alcohol and Drug
Programs Division of Administration
Audit Services Branch
1700 K Street, Fifth Floor
Sacramento, CA 95814-4037
Attention: David Mar

2. **Sanctions for Noncompliance**

Pursuant to OMB Circular A-133, ADP may impose sanctions against counties for continuous non-compliance in submission of acceptable audit reports. These sanctions are included in ADP's negotiated net amount (NNA) contract with counties. To date, it has not been necessary to impose any of the sanctions, but it may be necessary in the future if counties are not diligent in their compliance efforts. Problems we have noted that could result in future sanctions are identified in the next section. The possible sanctions include:

a) Withholding a percentage of federal awards until the audit is completed satisfactorily.
b) Withholding or disallowing overhead costs.
c) Suspending federal awards until the audit is conducted.
d) Terminating the federal award.

3. **Problems Noted**

- In review of single or program specific audit reports for SFYs 1999-00 and 2000-01, the primary problem remains the lack of timeliness on the part of counties in submitting these reports to ADP. Again, a copy of the audit performed in accordance with OMB Circular A-133 shall be submitted to ADP within 30 days of completion of the audit, **but not later than nine months** following the end of the subrecipient's fiscal year. Therefore, all required audit reports for SFY 2001-02 were due to ADP no later than March 31, 2002.

  Unfortunately, many of the reports in prior SFYs continued to arrive later than the nine months submission requirement. This necessitated additional follow-up efforts by ADP staff and could have ultimately resulted in audit findings at the State and County government levels. ADP requests that counties increase monitoring of their subrecipients to avoid future timeliness issues.

- Another problem area concerns the non-submission of corrective action plans and written attestation letters from counties. Counties are responsible for ensuring that the auditee prepares a corrective action plan to address each audit finding included in the current year single audit report. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

- After receipt of the corrective action plan by ADP, additional follow-up and final resolution regarding the audit findings is needed in order to meet OMB Circular A-133 audit requirements. OMB Circular A-133 requires the counties to maintain responsibilities for making management decisions regarding audit findings and resolution. Management decisions must be made within six months after receipt of the subrecipient's single audit report to ensure appropriate and timely corrective action.

  To ensure compliance with this requirement, ADP requires **written attestation from the county** that the subrecipient's corrective action plan has been implemented, and the audit findings contained in the Schedule of Findings and Questioned Costs/Management Letter have been resolved and are no longer issues. Additional on-site review of procedures implemented and documentation generated by the subrecipients may have to be performed by the county to satisfy this requirement. Also, review of the Certified Public Accountant's subsequent fiscal year single audit report may provide attestation that the audit findings have been resolved. Counties are requested to increase monitoring of these documents and to submit them more timely to avoid possible audit findings at the State and County government levels.

4. Impact of Substance Abuse and Crime Prevention Act of 2000 (SACPA) On County Audit Requirements When Funds Are Distributed to Public Or Private Providers

Title 9, Code of California Regulations (CCR), Section 9545, provides guidance to counties on their audit responsibilities. Counties are responsible for ensuring that an audit is conducted for any public or private contractor who expends more than $300,000 or more in SACPA funds. These audits shall be conducted in accordance with generally accepted government auditing standards as described in "Government Auditing Standards (1994 Revision)", published for the United States General Accounting Office by the Comptroller General of the United States.

Title 9, CCR, Section 9545(g), states in part that "any public or private contractor who is required to obtain a single audit pursuant to OMB Circular A-133 and who receives funding under the Act, shall ensure that the single audit addresses compliance with the requirements of the Act."

To meet the requirement, it would be expected that the auditor consider SACPA funding as though it is a federal program. The auditor should apply OMB Circular A-133 principles in determining the level of testing and reporting, if any, that is necessary in relation to SACPA.

It is not expected that OMB Circular A-133 audit reports for the fiscal period that ended June 30, 2001, will include any review of SACPA. Generally, SACPA spending that occurred during that period was specific to start-up costs that have been or will be adequately reviewed by ADP during its county-level audits.

For the current SFY ending June 30, 2002, to the extent that OMB Circular A-133 requires testing and reporting on SACPA funding, compliance criteria that the auditors should take into consideration are listed below.

Title 9, Code of California Regulations

- Section 9530 – Allowable Costs and Activities
- Section 9532 – Client Fees
- Section 9533 – Drug Medi-Cal Services

Health and Safety Code

- Section 11987.5 – Costs of Services; ratesetting procedures.

Cost Principles

- OMB Circulars A-87 and A-122

Policy/Interpretations

ADP has issued various ADP Bulletins and All County Lead Agency Letters (ACLA) that explain various audit issues and interpret laws and regulations. The ADP Bulletins and ACLA Letters are available on ADP's web page www.adp.state.ca.us . Those that are considered audit-related are listed separately under the category "Audit Bulletins and Letters".

For questions regarding SACPA audit requirements, please contact Michael Chmielewski, Assistant Audit Manager, at (916) 324-2038.

5. Impact of Revised Auditor Independence Requirements Per Comptroller General of United States and Head of GAO

In light of recent events surrounding controversial corporate accounting practices, please inform your subrecipients that the GAO made significant changes to the Government Auditing Standards ("Yellow Book") regarding auditor independence requirements. Specifically, particular attention and changes were made for issues relating to non-audit or consulting services. The purpose of these changes is to better serve the public interest and to maintain a high degree of integrity, objectivity, and independence for audits of both government and non-government entities.

Government Auditing Standards contain standards for audits of government organizations, programs, activities, functions, and of government assistance received by contractors, nonprofit organizations, and other non-government organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

Auditors and audit organizations have a responsibility to maintain independence, so that opinions, conclusions, judgements, and recommendations will be impartial and will be viewed as such. Auditors should avoid situations that could lead interested parties to conclude that the auditor is not able to maintain independence, objectivity, and impartial judgement.

Examples of services that auditors should not be performing include some of the following: developing or implementing accounting systems; determining account balances; developing internal control systems; processing payroll; posting of transactions; evaluating assets; designing or implementing information technology systems; serving on the board of directors; making policy decisions; supervising employees; developing programmatic policies; authorizing transactions; or maintaining custody of assets.

Non-audit or professional consulting services need to be scrutinized as to avoid a situation in fact, or the appearance thereof, that adversely affects independence and audit results. ADP requests that counties not only inform subrecipients of these changes, but also increase their own monitoring procedures to ensure the requirements of these revised standards are met.

REFERENCES

OMB Circular A-133 (revised June 24, 1997); Substance Abuse and Crime Prevention Act of 2000 Regulations, effective January 17, 2002; United States General Accounting Office; American Institute of Certified Public Accountants Statement of Position 98-3; OMB Technical Support Staff; United States Department of Health and Human Services, National External Audit Review Center Technical Support Staff.

HISTORY

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	00-10
Date Issued:	April 6, 2000
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	98-31
Date Issued:	June 18, 1998
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	97-24
Date Issued:	April 25, 1997
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted:	June 18, 1998

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	96-31
Date Issued:	June 18, 1996
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted:	April 25, 1997

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	95-09
Date Issued:	March 22, 1995
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted:	June 18, 1996

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	94-12
Date Issued:	May 20, 1994
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted:	March 22, 1995

Title/Subject:	OMB Circular A-133 Reminder Letter
Issue Number:	93-38
Date Issued:	May 18, 1993
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted:	May 20, 1994

Title/Subject:	OMB Circular A-133 Audit Requirement Responsibilities and Request for Audit Reports
Issue Number:	92-06
Date Issued:	March 12, 1992
Expiration Date:	Superseded by next annual OMB Circular A-133 Reminder Letter
Date Deleted:	May 18, 1993

QUESTIONS/MAINTENANCE

If you have any further questions, please contact David Mar, Audit Services Branch, Division of Administration, at (916) 324-2193.

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