

1,000 to 500. This revision will allow Federal agencies to provide more focused attention where there is the greatest risk in terms of Federal awards expended, but still provide each non-Federal entity with an assigned oversight agency for audit from which to request technical advice. The revision also changes the base years for determining cognizant agency for audit assignments. (Currently, the cognizant agency for audit determination is based on the amount of Federal funding in the year immediately preceding each five-year audit cognizant period. This revision changes the base year to the second year preceding the five-year audit cognizant period to allow sufficient time to make cognizant agency for audit determinations before the start of the audit cognizance period.) Finally, the revision changes the definition of oversight agency for audit to permit Federal agencies to make reassignments.

#### Response to Comments

OMB received 43 comment letters: Eight from Federal agencies, seven from State governments, four from universities, five from non-profit organizations, 14 from certified public accountants, and five from individuals. Nearly all comments focused on raising the audit threshold: 28 were in favor and 10 opposed. Of the 10 that were opposed to raising the audit threshold, two were from Federal agencies; two were from one State; one from a university; and five from individuals. Opposition centered on concerns over specific programs and the perceived lack of accountability over Federal funds that would fall below the new threshold. On the other hand, several commenters suggested raising the threshold to \$1 million to further alleviate the burden on non-Federal entities expending smaller amounts of Federal funds. OMB believes that, because the revisions only exempt an additional one-half of one percent of Federal dollars expended from audit while providing administrative relief to approximately 6,000 entities, the risk to Federal funds does not outweigh the benefits to grant recipients. OMB, however, appreciates the comments about reduced accountability and concerns expressed by several commenters that raising the audit threshold could provide more opportunities for fraud.

It is important to note that Circular A-133 audit is only one of many monitoring tools available to oversee the administration of and strengthen accountability over Federal grants. Grantee monitoring should occur

throughout the year rather than relying solely on a once-a-year audit. Monitoring activities may take various forms; however, a first monitoring tool should be identifying to the grantee the Federal award information (e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of Federal agency) and applicable compliance requirements. Other monitoring tools include reviewing grantee financial and performance reports, performing site visits to review financial and programmatic records and observe operations, and arranging for agreed-upon procedures engagements for certain aspects of grantee activities, such as described in § 230(b)(2) of Circular A-133. Factors such as the size of awards, the complexity of the compliance requirements, and risk of grantee non-compliance as assessed by the grantor may influence the nature and extent of monitoring procedures. Federal laws or regulations may impose monitoring requirements specific to a Federal program. The 2003 OMB Circular A-133 Compliance Supplement clarifies the guidance to auditors related to subrecipient monitoring.

It should also be noted that the Federal Government has the authority to audit and/or investigate any entity suspected of using Federal funds improperly, regardless of the amount of funds involved. Allegations of fraud should be directed to the Federal awarding agency's Office of Inspector General fraud hotline phone numbers which are available on the Internet at <http://www.ignet.gov>.

Nine comments addressed the increase from \$25 million to \$50 million of the threshold for cognizant agency for audit. Seven commenters (two Federal and five non-Federal) supported the increase and two Federal agencies opposed. One concern was that the reduction in the number of cognizant agency for audit assignments would reduce Federal agency monitoring of audit quality. OMB is actively working with Federal agencies to strengthen quality control reviews of audits by selecting a statistical sample of single audits to measure audit quality across Federal programs. This work is expected to improve our ability to measure and improve audit quality.

Four comments concerned the technical changes. One Federal agency (which opposed all of the proposed revisions to Circular A-133) expressed concern about accountability over Federal funds. As noted above, OMB believes that the revisions to Circular A-133 provide an appropriate balance between administrative relief and the risk to Federal funds.

#### Availability of Revised Circular

OMB has prepared an updated version of Circular A-133, as amended herein. It is available electronically on the OMB Home Page at <http://www.omb.gov> and then select "Grants Management" followed by "Circulars."

Dated: June 23, 2003.

**Augustine T. Smythe,**  
*Acting Director.*

1. OMB hereby amends Circular A-133 by replacing \$300,000 with \$500,000 in the following sections: § \_\_\_\_\_.200(a); § \_\_\_\_\_.200(b); § \_\_\_\_\_.200(d); § \_\_\_\_\_.230(b)(2); and § \_\_\_\_\_.400(d)(4).

2. OMB hereby amends Circular A-133 by replacing \$25 million with \$50 million in section § \_\_\_\_\_.400(a), first sentence.

3. OMB hereby amends Circular A-133 by replacing section § \_\_\_\_\_.400(a), third, fourth, and fifth (parenthetical) sentences with the following: § \_\_\_\_\_.400 Responsibilities.

(a) \* \* \* The determination of the predominant amount of direct funding shall be based upon direct Federal awards expended in the recipient's fiscal years ending in 2004, 2009, 2014, and every fifth year thereafter. For example, audit cognizance for periods ending in 2006 through 2010 will be determined based on Federal awards expended in 2004. (However, for 2001 through 2005, the cognizant agency for audit is determined based on the predominant amount of direct Federal awards expended in the recipient's fiscal year ending in 2000).

\* \* \* \* \*

4. OMB hereby amends Circular A-133, section § \_\_\_\_\_.105, by adding at the end of the definition of oversight agency for audit: "A Federal agency with oversight for an auditee may reassign oversight to another Federal agency which provides substantial funding and agrees to be the oversight agency for audit. Within 30 days after any reassignment, both the old and the new oversight agency for audit shall notify the auditee, and, if known, the auditor of the reassignment."

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#### OFFICE OF MANAGEMENT AND BUDGET

##### Use of a Universal Identifier by Grant Applicants

**AGENCY:** Office of Management and Budget.

**ACTION:** Notice of final policy issuance.