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April 26, 2013

Mr. Daniel I. Werfel, Controller  
Office of Management and Budget  
725 17<sup>th</sup> St, NW  
Washington, DC 20025

Attention: Office of Federal Financial Management – OMB-2013-0001

Re: *Reform of Federal Policies Relating to Grants and Cooperative Agreements: Cost Principles and Administrative Requirements (Including Single Audit Act)*

Dear Mr. Werfel:

The Virginia Government Finance Officers' Association (VGFOA) appreciates the opportunity to comment on the *Reform of Federal Policies Relating to Grants and Cooperative Agreements: Cost Principles and Administrative Requirements (Including Single Audit Act)*.

We applaud the OMB's efforts to streamline the grant process. As an Association that represents the small and large localities in the Commonwealth of Virginia, we recognize that this is not an easy task and unfortunately, there is not a "one size fits all" outcome to this reform. However, we provide information below that may help in understanding the impacts and concerns of Virginia's towns, cities, and counties.

- **Concentrating audit resolution and oversight resources on higher dollar, higher risk awards.**
  1. In commenting on the advanced notice for grant reform, the VGFOA felt that while concentrating federal resources on the oversight and follow-up resolution on higher dollar and higher risk programs would make the process more efficient and effective, this may not necessarily be the best way to target improper payments, waste, fraud and abuse. We noted that many times, the improper payments, waste, fraud and abuse occurs at the smaller, pass-through entities that receive federal funds. Eliminating entities that expend less than \$1 million from the single audit requirements may have a reverse effect. Knowing they are not receiving audits and oversight of the federal awards may actually increase improper payments, fraud, waste and abuse.

Although \$750 thousand is a more conservative threshold than the previous \$1 million, it still excludes a significant portion of entities in the highest risk group for improper payments, waste, fraud and abuse. This level of risk is due to inability, from either lack of resources or experience, to properly incorporate internal controls needed over grants management. While we recognize that a full-blown audit would be excessive for this population, and a limited scope audit confusing,

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we feel there should be some level of assurance that reasonable internal controls are in place. We suggest OMB consider a reduced level of attestation (e.g. agreed upon procedures) be required for entities expending \$500,000 - \$750,000 in federal awards. These procedures could be in the form of an evaluation of a grant recipient's entity level controls and risk environment over grant management, to subsequently be reported through the Federal Clearing House; thereby, allowing grantors the ability to evaluate the need for a more in-depth audit.

2. In responding to the Advanced Notice on grant reform issued in 2012, VGFOA expressed the concern that many of the entities local governments pass funds through may no longer be required to have a Single Audit. This is a valuable tool used in monitoring subrecipients. By excluding these entities from the requirement to have a single audit, OMB is taking away a valuable tool subrecipient monitoring tool. While guidelines are provided to help pass-through entities monitor the subrecipients, the VGFOA feels that the threshold change from \$500,000 to \$750,000 will result in more staff resources to ensure the pass-through entities have proper internal controls in place and are expending funds in accordance to the grant requirements.

- **Streamlining the types of compliance requirements in the Circular A-133 Compliance Supplement.**

The VGFOA agrees with OMB's decision to limit the types of compliance requirements in the compliance supplement to: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Eligibility; Reporting; Subrecipient Monitoring; and Special Tests and Provisions. Based on our experience, these are the requirements that most likely result in improper payments, fraud, waste or abuse.

Initially, the VGFOA was concerned that the federal agencies would have the ability to determine specific requirements in special tests and provisions. We felt that federal agencies would add back many of the compliance requirements under special tests and provisions, thereby reducing the intent of the proposed reform to streamline federal grants. We are appreciative that OMB has recognized and addressed this concern in the new proposed reform by limiting these additional requirements only to those items essential to the oversight of the program, are required by statute or regulation, and when the federal agency makes a strong case for how non-compliance with the requirement would cause increased risk of fraud, waste and abuse.

- **General Provisions (.111 Effective Date)**

The proposed language as written under (b) indicates "federal agencies shall implement the policies and procedures applicable to recipients of awards and agreements (and subrecipients) by promulgating final regulations and any other appropriate guidance documents effective on a specified date which will be within one year after this guidance or any amendment to this guidance becomes final". The date variances between programs (and agencies) may cause confusion for recipients. In addition, an implementation date to update the compliance supplement is not addressed. Prior experiences have indicated that compliance supplement changes have routinely been late to publish and have resulted in wasted time and resources for the auditee and the auditor. Although it is tempting to issue these changes immediately, VGFOA recommends that one reasonable deadline, for all federal agencies, be established well enough in advance to allow for a uniform implementation.

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- **Audit Findings (.717 (b) (8))**

"In cases where the auditor relies upon or utilizes statistical sampling techniques, the auditor must provide audit documentation to clearly show how the same was drawn, to support that the sample size utilized is appropriate and proportional to any findings or conclusions in the audit that are based on the sample, and to demonstrate that the sample was drawn in such a way that it can be expected to be representative of the population."

Auditors are required to document sample selection and size in the audit workpapers. We believe that requiring this information to be documented in the audit finding is not necessary or feasible for the following reasons:

1. To get around this requirement, auditors will perform non-statistical sampling. This is allowed by GAGAS and the Single Audit Act.
2. Most readers of the audit finding are not familiar with sampling matters and methodologies. This will only confuse the reader of the compliance report and will frustrate both the auditor and the auditee.
3. Requiring auditors to explain their audit process and methodology to management, allows for concealment of fraud, waste and abuse and allows those wanting to hide improprieties to work around the auditors methodology.
4. Defending sample sizes would quickly get into having auditors defending risk assessments, which are governed by strong AICPA technical guidance.

VGFOA recommends that OMB remove this requirement in its entirety and work in coordination with organizations like the AICPA to address potential solutions at the audit oversight level.

In conclusion, the new proposal provides a significant improvement in the areas of risk management and greater efficiencies for the federal agencies, and state and local governments. The consolidation of cost principles and administrative regulations also eliminates duplicative, and sometimes confusing, language. We appreciate the efforts of OMB to reform the grant process. Further, we are grateful for the opportunity to comment on the grant reform ideas and to work with the OMB for improving audit requirements, cost principles and administrative requirements surrounding grants and cooperative agreements. Thank you for your consideration.



Kimberly Williams  
VGFOA  
Standards Setting Committee Chair