



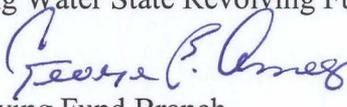
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

AUG 13 2007

OFFICE OF
WATER
CWSRF 07-03

MEMORANDUM

SUBJECT: Clarification of Single Audit Act Requirements Under the
Clean Water and Drinking Water State Revolving Fund Programs

FROM: George F. Ames, Chief 
Clean Water State Revolving Fund Branch

Charles A. Job, Chief 
Infrastructure Branch

TO: Water Division Program Managers
Regions I - X

The purpose of this memorandum is to update the memorandum, "Single Audit Act Guidance for Sub-Recipients," issued November 6, 2001 (CWSRF 02-2 and DWSRF 02-4). This memorandum incorporates updated Single Audit Act (SAA) requirements and clarifies the responsibilities of State Revolving Fund (SRF) assistance recipients.

The Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, sets out the requirements for recipients or sub-recipients of Federal financial assistance. (In the SRF program, sub-recipients are loan recipients.) To implement the SAA, the Office of Management and Budget (OMB) issued Circular A-133 which states that non-Federal entities must have an audit of their use of Federal financial assistance any time they expend \$300,000 or more in Federal financial assistance in a fiscal year. For fiscal years ending after December 31, 2003, the threshold is \$500,000.

§ .200(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with § .500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

Determination of Application of SAA to Assistance Recipients

For the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs, complying with the SAA requirements is a two-stage process. First, for each capitalization grant that the SRF receives, the State identifies a group of

projects at least equal to the amount of the capitalization grant that are required to meet the SAA requirements. Second, sub-recipients identified as being subject to the SAA requirements must annually determine if their expenditure of Federal financial assistance received from all sources exceeds \$500,000, thereby requiring them to conduct SAA audits. Sources of Federal financial assistance may include the SRF programs, health care, social services, highways, and education.

Federal Financial Assistance. For the CWSRF and DWSRF programs, an amount equal to funds “directly made available by” the capitalization grant is considered Federal financial assistance. These funds are subject to SAA requirements. In order to meet the requirements of the SAA, the State may choose to designate a specific group of projects in an amount equal to the capitalization grant to which the SAA will apply. If the State chooses to designate a specific group of projects to which the SAA requirements apply, this should be the same group of projects that the State has designated to meet other Federal cross-cutting requirements. The application of SAA requirements may not be banked. When a State SRF agency applies previously banked Federal requirements to the current capitalization grant, it must select additional loan projects totaling an amount equal to the current grant to which to apply the SAA requirements only.

Further, in accordance with 606(c)(3) of the Clean Water Act and 1452(b)(2)(A) of the Safe Drinking Water Act, this SAA requirement must be included in the terms of the financial assistance stated in a State’s annual SRF Intended Use Plan.

\$500,000 Threshold. The SAA and Circular A-133 specify that the sub-recipient reporting threshold is met when the sub-recipient’s expenditure of any Federal financial assistance exceeds the \$500,000 threshold during a fiscal year. For the purposes of the CWSRF and DWSRF, an expenditure occurs at the time that funds are disbursed by the sub-recipient for the purpose for which the assistance is provided. For example, for an SRF loan, the expenditure occurs at the time the loan recipient pays an invoice. For refinancing assistance, the expenditure occurs at the time the loan recipient uses the proceeds of the loan to refinance the existing debt. (The period for reporting is the fiscal year of the entity receiving financial assistance.)

State SRF Program Responsibilities

As recipients of Federal funding, States expending more than \$500,000 of Federal funds during a fiscal year are responsible for undergoing audits consistent with the SAA.

The responsibility of the State SRF program with respect to SAA requirements that apply to sub-recipients is limited to the group of projects identified by the SRF as equaling the amount of funds “directly made available by” the capitalization grant. In the context of the SAA, projects so identified by the State are considered to be recipients of Federal financial assistance and thereby subject to SAA requirements.

A distinction is made between the amount of SRF Federal financial assistance expended by the sub-recipient and total Federal financial assistance expended in a fiscal year which may include not only SRF monies, but also highway monies, education monies, and health care monies. The responsibility of the State SRF program does not extend to requirements that apply

to financial assistance received by the sub-recipient from other Federal sources. The State SRF program is not responsible for monitoring or ensuring a sub-recipient's compliance with SAA requirements in the situation where the sub-recipient expends less than \$500,000 in SRF Federal financial assistance, even if total Federal financial assistance expended may exceed \$500,000 in the fiscal year.

With regard to the SRF sub-recipients that the State identifies in the group that are required to meet the SAA requirements (i.e., those sub-recipients who fall in the SAA category identified in the first step above), the State SRF program is responsible for:

- Identifying in the sub-recipient assistance agreement the amount of SRF Federal financial assistance included in the loan;
- Including in the assistance agreement the requirement that the sub-recipient conduct a SAA audit if it expends more than \$500,000 in SRF Federal financial assistance in a fiscal year;
- Requiring in the assistance agreement that the sub-recipient provide the State SRF program with a copy of the SAA audit if the sub-recipient expends more than \$500,000 in SRF Federal financial assistance in a fiscal year;
- Requiring in the assistance agreement that the sub-recipient inform the State SRF program of findings and recommendations pertaining to the SRF contained in SAA audits conducted by the sub-recipient in instances where the \$500,000 SRF Federal financial assistance threshold was not reached;
- Notifying the sub-recipient on an annual basis of the amount of SRF Federal financial assistance disbursed to the sub-recipient for project expenditures. In situations where a sub-recipient has received several loans over time from the SRF, the total amount of SRF funds disbursed and reported to a sub-recipient in any single year may include monies to cover expenditures emanating from overlapping loans and for several projects; and
- Reviewing, approving, and monitoring actions taken under a sub-recipient's corrective action plan to address SAA audit findings and recommendations insofar as they pertain to SRF Federal financial assistance. With respect to a State-wide SAA audit, the State SRF agency is not responsible for the resolution of findings that do not pertain to SRF financial assistance.

SRF Sub-Recipient Responsibilities

SRF assistance recipients are responsible for:

- Maintaining an annual (fiscal year) accounting system, and identify all expenditures of Federal financial assistance (A-133 § ____ .205);

- Conducting a SAA audit in those fiscal years when expenditures of total Federal financial assistance exceeds \$500,000 (A-133 § _____.500). It is the sub-recipient's responsibility for determining if the \$500,000 threshold is reached and if a SAA audit is required;
- Submitting to the SRF State Agency its SAA audit when it is completed within nine months of the end of the audit period (A-133 § _____.320); and
- Initiating corrective actions for audit reports with findings and recommendations that impact the SRF financial assistance. Management decisions for corrective actions shall be made within six months of the receipt of the audit report (A-133 § _____.405 (d)).

SAA requirements placed on SRF borrowers in financing agreements are not "continuing compliance requirements" that would otherwise require a borrower to submit a SAA audit while the loan is outstanding even in years the borrower received no SRF Federal financial assistance. Under the SAA, "continuing compliance requirements" provisions apply only to recipients of loans made by the Federal Government. Under the SRF program, loans are made by the State entity, not by the Federal Government.

If you have any questions, please contact either of us, or for CWSRF questions contact Cliff Yee, National CWSRF Program Audit Manager, at 202-564-0598, or for DWSRF questions contact Howard Rubin at 202-564-2051.

cc: CWSRF Regional Coordinators
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