

Higher Risk Designations and COVID Funding

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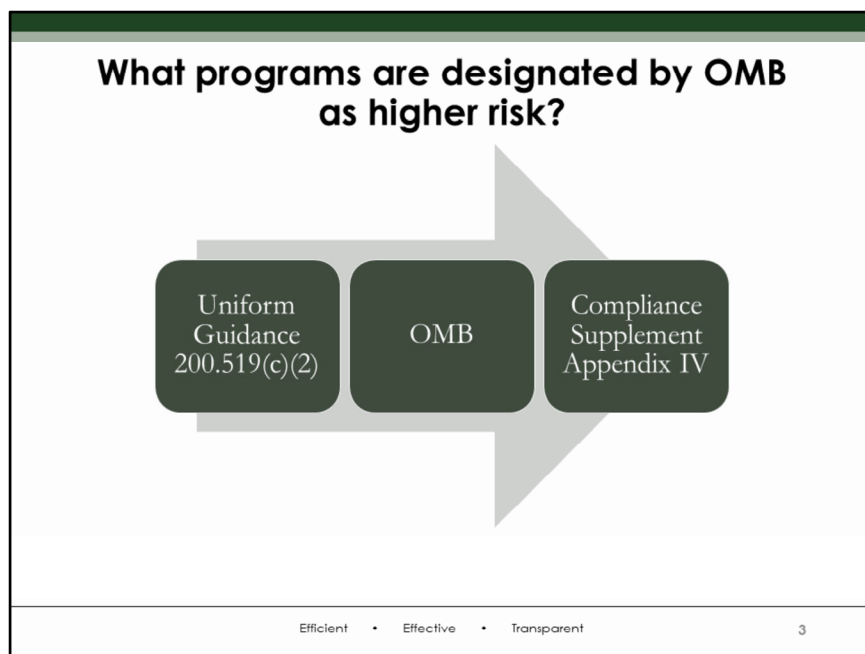
- What programs are designated by OMB as higher risk?
- How does a higher risk designation impact major program determination?



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We're going to tackle two main questions in the quick training.



We've grown accustomed to seeing Medicaid as "higher risk" but this year several additional programs were given that higher risk designation. You may be wondering, who makes this designation and how is it communicated?

Uniform Guidance section 200.519(c)(2) states that Federal agencies, with the concurrence of OMB, may identify Federal programs that are higher risk. It also states that OMB will provide this identification in the Compliance Supplement.

Uniform Guidance gives the power to designate programs as higher risk to OMB. OMB releases the programs with the higher risk designation in the annual OMB Compliance Supplement.

This presentation will focus on those programs designated as higher risk by the 2021 OMB Compliance Supplement, Appendix 4.

I would encourage auditors to review Part 8, Appendix 4 of the 2021 OMB Compliance Supplement for detailed information regarding programs designated as higher risk in 2021.

What programs are designated by OMB as higher risk?

COVID-19 Funding

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief, and Economic Security Act (CARES)
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- American Rescue Plan Act (ARP)

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To give a little background on the 2021 higher risk designations...OMB determined that the additional risk associated with certain COVID-19 funding required additional programs to be designated as “higher risk” for single audits subject to the 2021 OMB Compliance Supplement.

The Acts listed on this slide established many new Federal programs and added funding to existing Federal programs as a result of the COVID-19 pandemic. OMB refers to funding arising from these sources as “COVID-19 funding” or “COVID-19 programs.”

What programs are designated by OMB as higher risk?

All ARP Programs

- https://www.cfo.gov/assets/files/Revised-American-Rescue-Plan-Assistance-Listings_10-29-2021.pdf

Medicaid Cluster

- AL #93.778, #93.777, #93.775

Testing for the Uninsured

- AL #93.461

Provider Relief Fund

- AL #93.498

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The programs designated as higher risk for 2021 are listed on this slide and the next slide.

The first items listed is **All** American Rescue Plan Act Programs. CFO.gov released a list of programs, and their respective Assistance Listing Numbers, funded by the American Rescue Plan Act. The list is available at the link on this slide. When reviewing the SEFA during major program determination, it may not be obvious which programs are funded by ARP therefore auditors need to review this listing to verify what program(s) are funded by American Rescue Plan Act and therefore higher risk.

In addition to all American Rescue Plan Act programs, the Medicaid Cluster, Testing for the Uninsured, and Provider Relief Fund were also designated by OMB as higher risk.

What programs are designated by OMB as higher risk?

Airport Improvement Program

• AL #20.106

Federal Transit Cluster

• AL #20.500, #20.507, #20.525, #20.526

Coronavirus Relief Fund

• AL #21.019

Emergency Rental Assistance

• AL #21.023

Education Stabilization Fund

• AL #84.425

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How does a higher risk designation impact major program determination?

Type A Determination

Has the federal OMB designated the program as higher risk, as indicated in Appendix IV of the OMB Compliance Supplement? [200.519(c)(2)]

Yes = probable not low risk program [\[See Footnote 3\]](#)

Whether yes or no, go to the next block

Type B Determination

Has the federal OMB designated the program as higher risk, as indicated in Appendix IV of the OMB Compliance Supplement? [200.519(c)(2)]

Yes = indicates higher risk [\[See Footnote 3\]](#)

Whether yes or no, go to the next block

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Now that you know which programs have been designated by OMB as higher risk, we're going to discuss how that higher risk designation impacts major program determinations.

One of the elements required by the Uniform Guidance to be considered in evaluating both type A and type B programs is whether OMB has designated the program as higher risk.

We're going to go through the considerations set forth by the OMB Compliance supplement for both Type A and Type B programs with a higher risk designation.

How does a higher risk designation impact major program determination?

For Type A, ARP Funded, Higher-Risk Programs

Type A
Determination

Was this program audited as a major program in at least one of the two most recent audit periods (or in the most recent audit period in a biennial audit)? [200.518(c)(1)]

No = not low risk
Yes = go to the next block

ARP
Programs
Above Type
A Threshold



Not Low
Risk,
Audited as
Major

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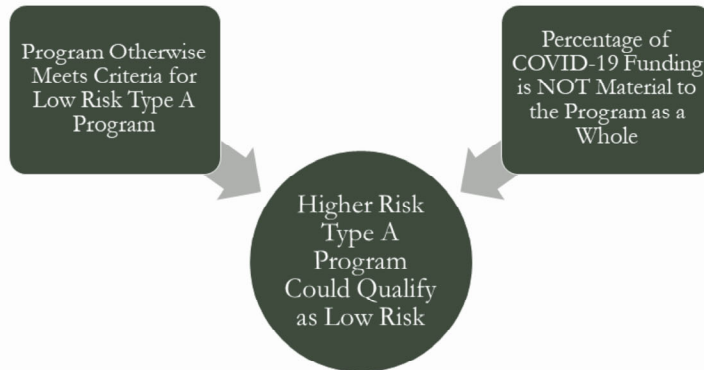
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The UG requires also auditors to do a two year lookback for **Type A** programs.

- The type A determination asks - Was the program audited as a major program in at least one of the two most recent audit periods?
 - For new programs established by the ARP which exceed the type A threshold, the response to this would be “no” and therefore the program would be required to be audited as major.

How does a higher risk designation impact major program determination?

For Type A, Non-ARP Funded, Higher-Risk Programs



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For non ARP Type A Programs, part 4 of the OMB compliance supplement states that: A 'higher risk' designation will often result in a Type A program or cluster being audited as a major program. However, an auditor is not precluded from determining that a 'higher risk' non-ARP Type A program or cluster qualifies as a low risk Type A program **if both of the following criteria are met:**

- (1) the program otherwise meets the criteria for a low risk Type A program in section 200.518 of the Uniform Guidance (*as built into our RSAR*); **and**
- (2) The percentage of COVID-19 funding in the program or other cluster during the non-federal entity's fiscal year **is not material to the program or other cluster as a whole**

How does a higher risk designation impact major program determination?

For Type A, Non-ARP Funded, Higher-Risk Programs

Coronavirus Relief Fund AL #21.019



Federal Transit Cluster AL #20.500, #20.507, #20.525, #20.526



Must evaluate and document during major program determination!

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Let's expand upon the "not material to the program or cluster as a whole" requirement.

- Example 1 – Coronavirus Relief Fund being evaluated as Type A program for 2021. If the program was audited as major in 2020 with no exceptions *and* otherwise meets low risk criteria, you would STILL need to audit the program as major in 2021 as it does not meet the requirement that COVID funding be immaterial to the program as a whole
- Example 2 – Federal Transit Cluster being evaluated as Type A program for 2021. If the program was audited as major in 2020 with no exceptions *and* otherwise meets low risk criteria *and* COVID-19 funding makes up 3% of total 2021 activity (which is below the 5% Federal materiality threshold), the program WOULD qualify as low risk

It's important to document the consideration of COVID-19 funding during the major program determination to support your conclusions!

How does a higher risk designation impact major program determination?

For Type B, Higher-Risk Programs

Per Appendix IV: No change to normal risk assessment process.

Type B
Determination

Has the federal OMB designated the program as higher risk, as indicated in Appendix IV of the OMB Compliance Supplement? [200.519(c)(2)]

Yes = indicates higher risk [\[See Footnote 3\]](#)

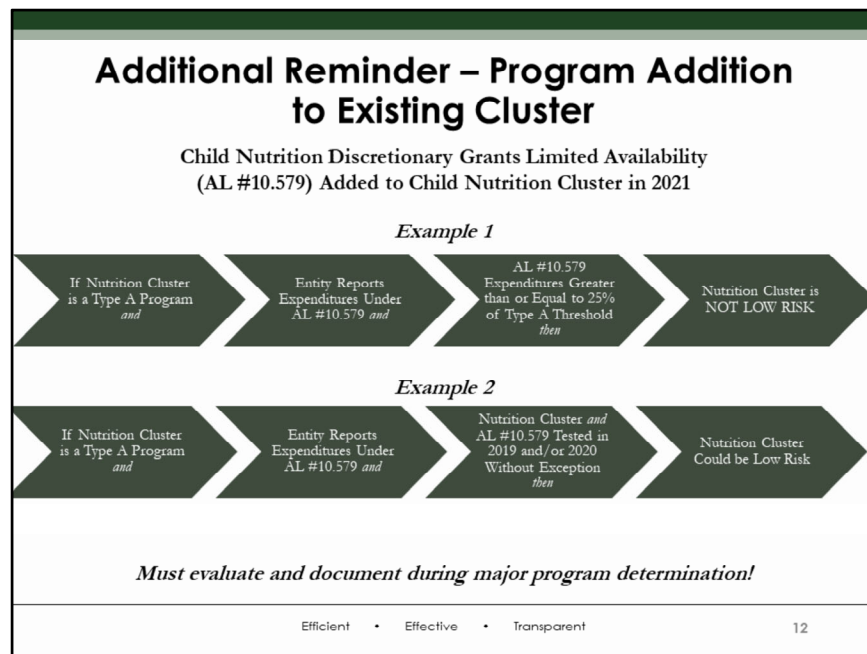
Whether yes or no, go to the next block

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Appendix 4 of the OMB Compliance Supplement states that there are no changes to the normal risk assessment process for higher risk Type B programs. The higher risk identification must be considered with other factors considered in UG 200.519 which are built into the RSAR. In addition, the auditor is not required to prioritize the assessment of risk for 'higher risk' Type B programs over other Type B programs.

Per footnote 3 to the RSAR: Auditors should note that this does not automatically make the program high risk unless the federal government sends notification to the auditee that the program should be considered not low risk (not just higher risk). May consider p/y audit results, etc. when making this determination.



I wanted to give one additional reminder that may impact major program determination for 2021 audits.

Assistance Listing #10.579, the Child Nutrition Discretionary Grants Limited Availability program was added to the Child Nutrition Cluster in 2021.

OMB Compliance Supplement Appendix 8 provides guidance on how this addition to the cluster impacts the two-year lookback when evaluating the cluster as a Type A program.

If a cluster is added or changed, the cluster cannot qualify as having been audited as a major program in one of the two most recent audit periods UNLESS:

1. The auditee's current year expenditures for the newly added program were less than or equal to 25% of the Type A Threshold *OR*
2. All programs included in the new cluster meet the 2-year lookback criterion

We'll illustrate the potential impact of this change using a few examples. *Note that the examples on this slide assume that all other "low risk" criteria per the UG/RSAR were met.*

- Example 1 – if the Nutrition Cluster is a Type A program, with expenditures under AL #10.579 in the audit period, and the expenditures under AL #10.579 are 30% of the auditee's Type A threshold, then (assuming AL 10.579 was not tested in the

2019 or 2020 audits), the Child Nutrition Cluster is *not* low risk and must be audited as a major program.

- Example 2 – if the Nutrition Cluster is a Type A program, with expenditures under AL #10.579 in the audit period, and the Nutrition Cluster *and* AL #10.579 were tested without exception in the prior audit, then the Nutrition Cluster could be Low Risk in 2021.

Remember that the evaluation must be performed and documented during the major program determination to support the conclusion reached.

Recap



1. Review the listing of higher risk programs, including the full listing of ARP Programs.
2. For higher risk Type A programs, consider the full RSAR risk determination as well as percent of COVID-19 funding when determining major programs.

To recap – when completing the major program determination you must....



**Please send Federal Questions
to FACCR@ohioauditor.gov**

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