



THE NEW SINGLE AUDIT SUPER CIRCULAR

**UNIFORM ADMINISTRATIVE REQUIREMENTS,
COST PRINCIPLES AND AUDIT REQUIREMENTS
UNDER FEDERAL AWARDS**

J. Michael Inzina, CPA, CGFM, CGMA

ALTEC

Audit Litigation Training and Efficiency Consulting, Inc.

1401 Hudson Lane, Suite 201

Monroe, Louisiana 71201

(318) 322-2870

www.altec-usa.com



ABOUT THE AUTHOR

J. Michael Inzina, CPA, CGFM, CGMA is founder and chief executive officer of Audit Litigation Training and Efficiency Consulting, Inc. (ALTEC), a consulting company serving public accounting firms and other accounting and auditing organizations on matters of audit efficiency, continuing education, litigation and ethics. He has over 35 years of public accounting experience, and remains a partner in the firm of Stagni & Company, LLC, whose practice is concentrated in government and nonprofits organizations. Mike holds a BBA in accounting from the University of Louisiana (Monroe), where he graduated summa cum laude in May 1976. He is a member of the American Institute of CPAs, Society of Louisiana CPAs, Government Finance Officers Association of Louisiana, and the Association of Government Accountants. Mike earned the CEA in governmental in 1990, was awarded the Certified Government Financial Manager (CGFM) designation in 1996 and the Chartered Global Management Accountant (CGMA) designation in 2012. He is a past chapter president and member of the Society of Louisiana CPAs Board of Directors and served two terms as chairman of the Governmental Positive Enforcement Program of the Louisiana State Board of CPAs. He has served on a number of committees of the Society of Louisiana CPAs, and currently serves on its Ethics Committee. Mike also served on the GASB Service Efforts and Accomplishments Task Force.

Mike has twice been a member of the AICPA Professional Ethics Executive Committee (1989-1992 and 2000-2003), and served on the Auditing Standards Board from 1997 to 2000. From 1986 to 1993, he also served as a member of AICPA Independence and Behavioral Standards Subcommittee, and as Subgroup Chairman of the Governmental Technical Standards Committee. During this time he conducted numerous investigations of complaints filed by federal, state and local agencies alleging substandard performance of audits of governmental and nonprofit entities, and represented the Professional Ethics Division at hearings of the Joint Regional Trial Board.

He contributed to the *Implementation Guide* for GASB Statement 34, AICPA Statement of Position 98-3, *Audits of States, Local Governments and Not-for-Profit Organizations Receiving Federal Awards*, revisions to the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, the AICPA Practice Aid *Fraud Detection in a GAAS Audit*, revisions to the Louisiana Governmental Audit Guide and in drafting state legislation affecting governmental accounting and auditing requirements. He has served as technical consultant and instructor for the Louisiana Division of Administration (Office of Community Development) and as consultant to the Louisiana Department of Education. Mike frequently appears as moderator and panelist on the Accountants' CPE Network (ACPEN).

Mike has been named twelve times as an Outstanding Instructor by the American Institute of CPAs and several state societies, and received a Special Recognition Award from the Society of Louisiana CPAs Board of Directors for his contributions to continuing education in 1994. In addition, he was awarded the 2001 National Education and Training Award from the Association of Government Accountants and in 2009 was named national Beta Alpha Psi Business Information Professional of the Year.

© J. Michael Inzina, CPA, CGFM, CGMA 2015

All rights reserved. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system without permission from the author.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that neither the author nor the publisher is engaged in the rendering of accounting or other professional services. If expert assistance is required, the services of a competent professional should be sought.

**Other Materials Published by Audit Litigation, Training and
Efficiency Consulting, Inc. (ALTEC)**

Obtaining and Evaluating Audit Evidence
Government Auditing Standards: The Yellow Book
Testing Compliance with Laws and Regulations in a Governmental Audit
Conducting Government Audits under GAAS, GAGAS and the Single Audit
Accounting and Auditing Update
Governmental Accounting and Auditing Update
Not-for-Profit Accounting and Auditing Update
OMB Circulars A-87, A-133 and the Compliance Supplement
Understanding the Entity and Its Environment Including Internal Controls
Audit Documentation
Single Audit Testing and Documentation
The Pillars of Professional Skepticism
Common Blunders in Audits of Government Entities
Performing Effective and Efficient Audit Testing
Internal Control: Identifying and Reporting Deficiencies
GASB Questions and Answers

The New Single Audit Super Circular
Uniform Administrative Requirements, Cost Principles
and Audit Requirements for Federal Awards

Author/Instructor: J. Michael Inzina, CPA, CGFM, CGMA
Publisher/Vendor: Audit Litigation, Training and Efficiency Consulting, Inc.
(ALTEC)

Description: An overview of the unified circular applicable to the audits of states, local governments and not-for-profit organizations.

- Introduction
- Applicable AICPA standards
- Applicable OMB standards

Delivery method: Live presentation

Learning objectives: To enable participants to understand and efficiently apply the standards applicable to the performance of audits of federal programs under the uniform administrative requirements.

Experience/Prerequisites: Minimum to advanced level of auditing experience.

Program level: Minimum to overview

Who should attend: Staff with responsibility for performing single audits of governmental and not-for-profit entities; partners and managers responsible for planning, reviewing and reporting on single audit engagements.

Advance preparation: None

Recommended CPE credit: 8 hours (400 minutes) (Accounting and auditing/Yellow Book)

Acknowledgements: The author is deeply grateful to Lynn Andries, CPA for his technical review and commentary on the content of this course.

CONTENTS

(The links below will take you directly to that page)

<u>Introduction</u>	6
<u>Chapter 1 - Applicable AICPA standards – AU-C 935</u>	7
<u>Chapter 2 - OMB Unified Circular Guidance – Subparts A - E</u>	16
<u>Chapter 3 - OMB Unified Circular Guidance - Subpart F - Audit Requirements</u>	53
<u>Chapter 4 - The Single Audit Compliance Requirements and Suggested Control Activities</u>	68

Introduction

This material is designed to provide local governments, not-for-profit organizations and their auditors with an understanding of the procedures that should be performed for audits performed in accordance with 2 CFR Chapter I and Chapter II, parts 200, 215, 225 and 230, otherwise known as the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

The final guidance in the “super circular” supersedes and streamlines the requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133. It represents the first major revision to single audit requirements in over a decade and is expected to result in about 5,000 fewer single audits than the previous requirements under Circular A-133, while maintaining oversight of 99.7% of the dollars previously subject to audit.

The new requirements are applicable to single audits performed for periods **beginning** on or after December 26, 2014 and later.

Chapter 1

Applicable AICPA Standards

AU-C 935, *Compliance Audits*, addresses the auditor's responsibilities under GAAS when performing a compliance audit.

Introduction

Governments frequently establish audit requirements for entities to undergo and audit of their compliance with applicable compliance requirements. This standard is applicable when an auditor is engaged to perform a compliance audit in accordance with all of the following:

- Generally accepted auditing standards (GAAS)
- *Government Auditing Standards* (referred to as GAGAS)
- A governmental audit requirement

This standard addresses the requirements of GAAS to a compliance audit, which is usually performed in conjunction with a financial statement audit. This SAS does not apply to the financial statement portion of the audit. Nor does it apply when the audit requirement calls for an examination of an entity's compliance, performed under the Statements on Standards for Attestation Engagements (SSAEs).

GAGAS and other governmental audit requirement contain standards that are supplementary to those in GAAS, as well as guidance on how to apply those standards and requirements.

Management's responsibility

A compliance audit is based on management's responsibility for compliance, including:

- Identifying the entity's government programs, as well as understanding and complying with the compliance requirements
- Establishing and maintaining controls that provide reasonable assurance that the entity manages government programs in compliance with the compliance requirements
- Evaluating and monitoring the entity's compliance with the compliance requirements
- Taking corrective action on audit findings that result from the compliance audit

Effective date

The effective date was for periods ending on or after June 15, 2010, with earlier application permitted. Amendments to the standard were effective for periods ending on or after December 31, 2012.

Objectives

The auditor's objectives in a compliance audit are:

- To obtain sufficient appropriate audit evidence to form an opinion and report at the level specified in the governmental audit requirements on whether the entity complied in all material respects with the applicable compliance requirements
- To meet the supplementary audit requirements of the governmental audit requirement, if any

Definitions

Applicable compliance requirements are those requirements that are subject to the compliance audit.

Audit findings are the matters that are required to be reported by the auditor in accordance with the governmental audit requirement.

Audit risk of noncompliance is the risk that the auditor may unknowingly fail to appropriately modify his or her opinion on the entity's compliance when material noncompliance exists. It consists of inherent risk of noncompliance, control risk of noncompliance and detection risk of noncompliance.

Compliance audit is a program specific or organization-wide audit of an entity's compliance with applicable compliance requirements.

Compliance requirements are the laws, regulations, rules and provisions of contracts and grant agreements that are applicable to the government programs with which the entity is required to comply.

Control risk of noncompliance is the risk that material noncompliance will not be prevented to detected and corrected in a timely manner by the entity's control over compliance.

Deficiency in internal control over compliance is a deficiency in the design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance in a timely manner. *Design deficiencies* exist when a control necessary to meet the control objectives is missing or an existing control is not properly designed so that, even if it operates as designed, the control objective would not be met. *Operating*

deficiencies exist when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Detection risk of noncompliance is the risk that the auditor will not detect material noncompliance that has occurred. It is a function of the effectiveness of the audit procedures applied and their application by the auditor.

Governmental audit requirements are established by law or regulation, rule, or contract and grant agreement provisions requiring an entity to undergo an audit of its compliance with applicable compliance requirements related to one or more government programs that the entity administers.

Government Auditing Standards are the guidance issued by the Comptroller General of the United States, U.S. Government Accountability Office for financial audits, attestation engagements and performance audits.

Government programs are the means by which government entities achieve their objectives.

Grantor is a government agency from which funding for the government originates.

Inherent risk of noncompliance is the susceptibility of an applicable compliance requirement to material noncompliance, assuming no related internal controls.

Known questioned costs are questioned costs specifically identified by the auditor, and are a subset of likely questioned costs.

Likely questioned costs are the best estimate of total questioned costs, developed by extrapolating from audit evidence obtained, for example, by projecting known questioned costs identified in an audit sample to the entire population from which the sample was selected.

Material noncompliance is the failure to follow requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively significant, either individually or when aggregated with other noncompliance, to the affected government program.

Material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented or detected and corrected in a timely manner. A reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as those terms are used in SFAS 5, *Accounting for Contingencies* (or GASB Statement 62).

Organization-wide audit is an audit of an entity's financial statements and an audit of its compliance with the applicable compliance requirements as they relate to one or more government programs that the entity administers.

Pass-through entity is an entity that receives an award from a grantor or other entity and distributes all or part of it to another entity to administer a government program.

Program-specific audit is an audit of an entity's compliance with applicable compliance requirements as they relate to one government program that the entity administers. In addition to the compliance audit, a program-specific audit includes either an audit of the entity's or the program's financial statements.

Questioned costs are costs that are questioned by the auditor because of (1) violation or possible violation of the applicable compliance requirements, (2) the costs are not supported by adequate documentation, or (3) the incurred costs appear unreasonable and do not reflect the actions that a prudent person would take in the circumstances.

Risk of material noncompliance is the combined assessment of inherent and control risk of noncompliance.

Significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Requirements

Adapting and applying the AU sections to a compliance audit

When performing a compliance audit, the auditor, using professional judgment, should adapt and apply the AU sections to the objectives of a compliance audit (except for the AU sections listed in Exhibit A to AU-C 935).

Establishing materiality levels

The auditor should establish materiality levels for the audit based on the governmental audit requirement.

Performing risk assessment procedures

Management is responsible for identifying the entity's government programs and understanding and complying with the compliance requirements. The auditor should determine which of those government programs and compliance requirements to test in accordance with the governmental audit requirement.

The auditor should perform risk assessment procedures to obtain a sufficient understanding of the government program, the applicable compliance requirements, and internal control over compliance with the applicable compliance requirements.

In performing the risk assessment, the auditor should inquire of management about whether there are findings and recommendations in report or other written communications that result from previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit. The auditor should gain an understanding of management's response to findings and recommendations that could have a material effect on the entity's compliance with the applicable compliance requirements. The auditor should use this information to assess risk and determine the nature, timing and extent of further procedures, including determining the extent to which testing the implementation of any corrective actions is applicable to the audit objectives.

Assessing the risk of material noncompliance

The auditor should assess the risk of material noncompliance whether caused by error or fraud for each compliance requirement.

Performing further audit procedures in response to assessed risks

If the auditor identifies a risk of material noncompliance that is pervasive to the entity's compliance, the auditor should develop an overall response to the assessed risk of material noncompliance. The auditor should design and perform further audit procedures, including tests of details, to obtain sufficient appropriate audit evidence about the entity's compliance with each of the applicable compliance requirements in response to the assessed risks of material noncompliance. In doing so, the auditor should adapt and apply the guidance of AU-C 330 in designing and performing further audit procedures. These procedures should include performing tests of controls over compliance if:

- The auditor's risk assessment includes an expectation of the operating effectiveness of controls over compliance related to the applicable compliance requirements
- Substantive tests alone do not provide sufficient appropriate audit evidence, or
- Such tests of controls over compliance are required by the governmental audit requirement.

Supplementary audit requirements

The auditor should identify audit requirements specified in the governmental audit requirement that are supplementary to GAAS and GAGAS and perform procedures to address those requirements. In instances where the audit guidance provided by a governmental agency for the performance of the compliance audit has not been updated for, or otherwise conflicts with, current GAAS or GAGAS, the auditor should comply

with the most current applicable GAAS or GAGAS instead of the outdated or conflicting guidance.

Written representations

The auditor should obtain written representations from management related to the entity's compliance with the applicable compliance requirements. The auditor should determine that the matters addressed by the representations and the contents of the representations have been tailored to the entity, the governmental audit requirement, and the applicable compliance requirements.

Subsequent events

The auditor should consider information about subsequent events that comes to his or her attention after the end of the period addressed by the auditor's report and prior to the issuance of the report. Type I and Type II subsequent events are addressed.

The auditor should perform procedures to identify subsequent events, including but not limited to inquiring about and considering:

- Management's knowledge about whether any subsequent events have occurred that might affect the auditor's report on compliance
- Relevant internal auditor's report issued during the subsequent period
- Other auditor's reports identifying noncompliance that were issued during the subsequent period
- Regulatory agencies' reports on the entity's noncompliance that were issued during the subsequent period
- Information about the entity's noncompliance obtained through other professional engagements performed by the auditor for that entity

The auditor is not responsible to detect noncompliance that occurs subsequent to the period being reported on; however, if the auditor becomes aware of noncompliance before the date of the auditor's report that is of such a nature and significance that its disclosure is needed to prevent the report users from being misled, the auditor should include an explanatory paragraph in his or her report describing the nature of the noncompliance.

Forming an opinion and reporting

The auditor should evaluate the sufficiency and appropriateness of the audit evidence obtained.

The auditor should form an opinion, at the level specified by the governmental audit requirement, on whether the entity complied in material respects, with the applicable compliance requirements, and report appropriately. In forming an opinion, the auditor should evaluate likely questioned costs, not just known questioned costs, as well as other

material noncompliance that, by its nature, may not result in questioned costs. The auditor should report noncompliance and other matters that are required to be reported in the manner specified by the governmental audit requirement.

The report on compliance should include:

- A title that includes the word “independent”
- An addressee that is appropriate to the engagement
- An introductory paragraph that includes the following:
 - Identification of the one or more government programs covered by the compliance audit or reference to a separate schedule containing that information
 - Identification of the applicable compliance requirements or a reference to where they can be found
 - Identification of the period covered by the report
- A section with the heading “Management's Responsibility” that includes a statement that compliance with the applicable compliance requirements is the responsibility of the entity's management. If the document containing the auditor's report contains a separate statement by management about its responsibility for the applicable compliance requirements, the auditor's report should not include a reference to such statement by management.
- A section with the heading “Auditor's Responsibility” that includes the following statements:
 - A statement that the auditor's responsibility is to express an opinion on the entity's compliance with the applicable compliance requirements based on the compliance audit
 - A statement that the compliance audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, and the governmental audit requirement
 - A statement that the compliance audit included examining, on a test basis, evidence about the entity's compliance with those requirements and performing such other procedures as the auditor considered necessary in the circumstances
 - A statement that the auditor believes the compliance audit provides a reasonable basis for the auditor's opinion
 - A statement that the compliance audit does not provide a legal determination of the entity's compliance
- A section with the heading “Opinion” that includes the auditor's opinion, at the level specified by the governmental audit requirement, on whether the entity complied, in all material respects, with the applicable compliance requirements.
- If noncompliance is identified that results in a modification of the opinion, a description of such noncompliance or a reference to a description of such noncompliance in an accompanying schedule
- If other noncompliance that is required to be reported by the governmental audit requirement is identified (i.e., noncompliance that did not result in modification of

- the opinion) a description of such noncompliance or a reference to a description of such noncompliance in an accompanying schedule
- If the criteria used to evaluate compliance are
 - Established or determined by contractual agreement or regulatory provisions that are developed solely for the parties to the agreement or regulatory agency responsible for the provisions, or
 - Available only to the specified parties,
 A separate paragraph restricting the use of the report (consistent with AU-C 905)
 - The manual or printed signature of the auditor's firm
 - The city and state where the auditor practices
 - The date of the auditor's report

When the auditor's report on compliance is combined with a report on internal control over compliance, the following additional elements are required to be added to the report:

- A statement that management is responsible for establishing and maintaining internal controls over compliance with the requirements of laws, regulations, rules, contract and grant agreement applicable to government programs
- A statement that in planning and performing the audit, the auditor considered the entity's internal control over compliance to determine the auditing procedures for the purpose of expressing an opinion on compliance, and not to express an opinion on internal controls over compliance
- A statement that the auditor is not expressing an opinion on internal controls over compliance
- A statement that the auditor's consideration of internal controls over compliance was not designed to identify all significant deficiencies or material weaknesses in internal control over compliance, and therefore, all significant deficiencies or material weaknesses in internal control over compliance may not have been identified
- The definition of *deficiency in internal control over compliance*, and *material weakness in internal control over compliance*,
- A description of any identified material weaknesses in internal control over compliance or a reference to an accompanying schedule which contains such a description
- If significant deficiencies in internal control over compliance were identified, the definition of *significant deficiency in internal control over compliance*, and a description of such deficiencies or reference to an accompanying schedule which contains such a description
- If no material weaknesses were identified, a statement to that effect
- The restricted use paragraph must always be included in all combined reports on internal controls and compliance

Additional elements are required when the auditor is required to report on internal control, but chooses to do so in a separate report. Modifications of the report are required when:

- There is a scope restriction
- The auditor is making reference to the work of another auditor
- The auditor is unable to comply with GAAS, GAGAS, or the governmental audit requirement

The auditor should communicate to management and those charged with governance identified significant deficiencies and material weaknesses in internal control over compliance, and should communicate to those charged with governance the matters prescribed in AU-C 260.

On occasion, printed forms, schedules or reports designed or adopted by governmental agencies with which they are to be filed contain prescribed wording. If so, the wording may require an auditor to make a statement that he or she has no basis for making. If that is the case, the auditor should either reword the form, schedule or report accordingly, or attach an appropriately worded separate report.

Documentation

The auditor should document the risk assessment procedures performed, including those related to obtaining an understanding of internal controls over compliance. The auditor should document his or her response to assessed risk of material noncompliance, the procedures performed to test compliance with the applicable compliance requirements, and the results of those procedures, including any tests of controls over compliance. The auditor should document materiality levels and how they were determined. The auditor should document how he or she complied with the specific governmental audit requirements that are supplementary to GAAS and GAGAS.

Reissuance of the compliance report

If required to reissue the compliance report, the reissued report should include an explanatory paragraph stating that the report is replacing a previously issued report, and describing the reasons why the report is being reissued, and any changes from the previous report. If all of the programs being reported on are affected by the change, the auditor's report date should be updated to reflect the new procedures. If only some of the programs being reported on are affected, the auditor should dual date the report with the updated report date referencing the government programs for which additional audit procedures have been performed.

Chapter 2
OMB Unified Circular Guidance – Subparts A - E

Subpart A – Definitions (selected)

Acquisition cost means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the non-federal entity's regular accounting practices.

Advance payment means a payment that a federal awarding agency or pass-through entity makes by any appropriate payment mechanism, including a predetermined payment schedule, before the non-federal entity disburses the funds for program purposes.

Allocation means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

Audit finding means deficiencies which the auditor is required to report in the schedule of findings and questioned costs.

Auditee means any non-federal entity that expends federal awards which must be audited.

Auditor means an auditor who is a public accountant or a federal, state or local government audit organization, which meets the general standards specified in generally accepted government auditing standards (GAGAS). The term *auditor* does not include internal auditors of nonprofit organizations.

Budget means the financial plan for the project or program that the federal awarding agency or pass-through entity approves during the federal award process or in subsequent amendments to the federal award. It may include the federal and non-federal share or only the federal share, as determined by the federal awarding agency or pass-through entity.

Central service cost allocation plan means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

CFDA number means the number assigned to a federal program in the Catalog of Federal Domestic Assistance.

Capital assets means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP.

Capital expenditures means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.

Closeout means the process by which the federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the federal award have been completed and takes actions as described in § 200.343 Closeout.

Cluster of programs means a grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development (R&D), student financial aid (SFA), and other clusters.

Cognizant agency for audit means the federal agency designated to carry out the responsibilities described in § 200.513 Responsibilities, paragraph (a). The cognizant agency for audit is not necessarily the same as the cognizant agency for indirect costs. A list of cognizant agencies for audit may be found at the FAC Web site.

Cognizant agency for indirect costs means the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this Part on behalf of all federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit. For assignments of cognizant agencies see the following:

- (a) For IHEs: Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs), paragraph C.10.
- (b) For nonprofit organizations: Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations, paragraph C.1.
- (c) For state and local governments: Appendix V to Part 200—State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans, paragraph F.1.

Computing devices means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information.

Compliance supplement means Appendix XI to Part 200—Compliance Supplement (previously known as the Circular A-133 Compliance Supplement).

Contract means a legal instrument by which a non-federal entity purchases property or services needed to carry out the project or program under a federal award; *does not include* a legal instrument, even if the non-federal entity considers it a contract, when the substance of the transaction meets the definition of a federal award or subaward.

Contractor means an entity that receives a contract as defined in § 200.22 Contract (see above). This is comparable to the previous term *vendor*.

Cost allocation plan means central service cost allocation plan or public assistance cost allocation plan.

Cost objective means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-federal entity, a particular service or project, a federal award, or an indirect cost activity.

Cost sharing or matching means the portion of project costs not paid by federal funds (unless otherwise authorized by federal statute).

Cross-cutting audit finding means an audit finding where the same underlying condition or issue affects federal awards of more than one federal awarding agency or pass-through entity.

Disallowed costs means those charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable federal statutes, regulations, or the terms and conditions of the federal award.

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-federal entity for financial statement purposes, or \$5,000.

Expenditures means charges made by a non-federal entity to a project or program for which a federal award was received.

FAC means the clearinghouse designated by OMB as the repository of record where non-federal entities are required to transmit the reporting packages required by Subpart F—Audit Requirements of this Part.

Federal awarding agency means the federal agency that provides a federal award directly to a non-federal entity.

General purpose equipment means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and

systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

GAGAS means generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

Improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Indirect costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Indirect cost rate proposal means the documentation prepared by a non-federal entity to substantiate its request for the establishment of an indirect cost rate as described in Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) through Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals of this Part.

Information technology systems means computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources.

Intangible property means property having no physical existence, such as trademarks, copyrights, patents and patent applications and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property is tangible or intangible).

Intermediate cost objective means a cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives.

Internal control means a process, implemented by a non-federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;

- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

Internal control over compliance requirements for federal awards means a process implemented by a non-federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for federal awards:

- (a) Transactions are properly recorded and accounted for, in order to:
 - (1) Permit the preparation of reliable financial statements and federal reports;
 - (2) Maintain accountability over assets; and
 - (3) Demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award;
- (b) Transactions are executed in compliance with:
 - (1) Federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program; and
 - (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- (c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Loan means a federal loan or loan guarantee received or administered by a non-federal entity.

Major program means a federal program determined by the auditor to be major or a program identified as a major program by a federal awarding agency or pass-through entity.

Management decision means the evaluation by the federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.

Micro-purchase means a purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. Micro-purchase procedures comprise a subset of a non-federal entity's small purchase procedures. The non-federal entity uses such procedures in order to expedite the completion of its lowest-dollar small purchase transactions and minimize the associated administrative burden and cost. The micro-purchase threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1 (Definitions). It is \$3,000 except as otherwise discussed in Subpart 2.1 of that regulation, but this threshold is periodically adjusted for inflation.

Modified Total Direct Cost (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes

equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Oversight agency for audit means the federal awarding agency that provides the predominant amount of funding directly to a non-federal entity not assigned a cognizant agency for audit. When there is no direct funding, the Federal awarding agency which is the predominant source of pass-through funding must assume the oversight responsibilities.

Pass-through entity means a non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program.

Personal property means property other than real property. It may be tangible, having physical existence, or intangible.

Personally Identifiable Information (PII) means information that can be used to distinguish or trace an individual's identity, either alone or when combined with other personal or identifying information that is linked or linkable to a specific individual. Some information that is considered to be PII is available in public sources such as telephone books, public Web sites, and university listings. This type of information is considered to be Public PII and includes, for example, first and last name, address, work telephone number, email address, home telephone number, and general educational credentials. The definition of PII is not anchored to any single category of information or technology. Rather, it requires a case-by-case assessment of the specific risk that an individual can be identified. Non-PII can become PII whenever additional information is made publicly available, in any medium and from any source, that, when combined with other available information, could be used to identify an individual.

Program income means gross income earned by the non-federal entity that is directly generated by a supported activity or earned as a result of the federal award during the period of performance. Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under federal awards, the sale of commodities or items fabricated under a federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with federal award funds. Interest earned on advances of federal funds is not program income. Except as otherwise provided in federal statutes, regulations, or the terms and conditions of the federal award, program income does not include rebates, credits, discounts, and interest earned on any of them.

Protected Personally Identifiable Information (Protected PII) means an individual's first name or first initial and last name in combination with any one or more of types of information, including, but not limited to, social security number, passport number, credit card numbers, clearances, bank numbers, biometrics, date and place of birth, mother's

maiden name, criminal, medical and financial records, educational transcripts. This does not include PII that is required by law to be disclosed.

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Real property means land, including land improvements, structures and appurtenances thereto, but excludes moveable machinery and equipment.

Recipient means a non-federal entity that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program. The term recipient does not include subrecipients.

Research and Development (R&D) means all research activities, both basic and applied, and all development activities that are performed by non-federal entities. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.

Simplified acquisition threshold means the dollar amount below which a non-federal entity may purchase property or services using small purchase methods. Non-federal entities adopt small purchase procedures in order to expedite the purchase of items costing less than the simplified acquisition threshold. The simplified acquisition threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1 (Definitions) and in accordance with [41 U.S.C. 1908](#). As of the publication of this Part, the simplified acquisition threshold is \$150,000, but this threshold is periodically adjusted for inflation.

Special purpose equipment means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

Student Financial Aid (SFA) means federal awards under those programs of general student assistance, such as those authorized by Title IV of the Higher Education Act of 1965, as amended, ([20 U.S.C. 1070-1099d](#)), which are administered by the U.S. Department of Education, and similar programs provided by other federal agencies. It does not include federal awards under programs that provide fellowships or similar federal awards to students on a competitive basis, or for specified studies or research.

Subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

Subrecipient means a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

Supplies means all tangible personal property other than those described in § 200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-federal entity for financial statement purposes or \$5,000, regardless of the length of its useful life.

Termination means the ending of a federal award, in whole or in part at any time prior to the planned end of period of performance.

Third-party in-kind contributions means the value of non-cash contributions (i.e., property or services) that—

- (a) Benefit a federally assisted project or program; and
- (b) Are contributed by non-federal third parties, without charge, to a non-federal entity under a federal award.

Unliquidated obligations means, for financial reports prepared on a cash basis, obligations incurred by the non-federal entity that have not been paid (liquidated). For reports prepared on an accrual expenditure basis, these are obligations incurred by the non-federal entity for which an expenditure has not been recorded.

Unobligated balance means the amount of funds under a federal award that the non-federal entity has not obligated. The amount is computed by subtracting the cumulative amount of the non-federal entity's unliquidated obligations and expenditures of funds under the federal award from the cumulative amount of the funds that the federal awarding agency or pass-through entity authorized the non-federal entity to obligate.

Voluntary committed cost sharing means cost sharing specifically pledged on a voluntary basis in the proposal's budget or the federal award on the part of the non-federal entity and that becomes a binding requirement of federal award.

Subpart B – General Provisions

This part establishes uniform requirements for federal awards to non-federal entities. Federal awarding agencies may not impose additional or inconsistent requirements, with limited exceptions. For federal awards subject to this part, all administrative requirements, program manuals, handbooks and other non-regulatory materials that are inconsistent with the requirements must be superseded upon implementation, unless required by statutes or authorized under the limited exceptions.

OMB will review the requirements at least every five years after December 26, 2013.

All federal financial assistance announcements and award information must be published in English. Applications must be submitted in English and must be in terms of U.S. dollars. Non-federal entities may translate the federal award and other documents into another language.

The federal awarding agency must establish conflict of interest policies for federal awards. The non-federal entity must disclose in writing any potential conflict of interest to the federal awarding agency or pass-through entity in accordance with applicable federal awarding agency policy.

The non-federal entity or applicant for a federal award must disclose, in a timely manner, in writing to the federal awarding agency or pass-through entity all violations of federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the federal award. Failure to make the required disclosures can result in any remedies described in §200.338, including suspension and debarment.

Of particular interest is the information in the table at §200.101. This table specifies the subparts that are applicable (or not applicable) to a particular type of federal award. Among the types of federal awards noted in the table are grant agreements, cooperative agreements, cost-reimbursement contracts, fixed amount awards, agreements for loans and loan guarantees, interest subsidies and insurance.

Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards

The federal awarding agency or pass-through entity must determine the appropriate instrument for the federal award (such as grant agreement, cooperative agreement or contract).

This part provides information for federal agencies regarding their responsibilities for information that is required to be provided to non-federal entities for the purpose of applying for and receiving federal awards. This includes:

- Requirements regarding the public notice of funding opportunities
- Information regarding the federal awarding agency requirement to evaluate the risks posed by applicants prior to the non-federal entity receiving a federal award, and
- A listing of information that must be included in a federal award document.

Subpart D – Post Federal Award Requirements – Standards for Financial and Program Management

Subpart D contains information for both federal agencies and non-federal entities regarding their responsibilities after a federal award is granted. It covers a wide range of topics. Auditors should identify and understand the content that relates to non-federal entities because it will be one basis for compliance testing for awards, or increments of awards, made after December 26, 2014. Some topics covered in this Subpart relate to non-federal entities are internal controls, procurement, and pass-through entity responsibilities.

Internal controls – the non-federal entity’s responsibility for internal control is housed in §200.303. Previously this guidance only resided in the audit requirements of Circular A-133.

The non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the entity is managing the federal award in compliance with federal statutes, regulations and terms and conditions of the federal award.

The section states that a best practice is to be in compliance with the internal control guidance in *Standards for Internal Control in the Federal Government* (the “Green Book”), and *Internal Control – Integrated Framework* (the COSO report). The FAQs released by the Council on Financial Assistance Reform (COFAR) clarify that although non-federal entities must establish and maintain effective internal control over the federal award, the use of the previously mentioned frameworks and Appendix XI, “Compliance Supplement – Part 6, Internal Control” are not a requirement. In addition, the FAQs state that a non-federal entity is not required to document or evaluate internal control prescriptively in accordance with these documents or to reconcile technical differences between the documents. They are referenced as source documents for best practices regarding internal control.

Some of the other responsibilities of a non-federal entity are to:

- Comply with federal statutes, regulations and the terms and conditions of the federal awards

- Evaluate and monitor the entity’s compliance with federal statutes, regulations and the terms and conditions of the federal awards
- Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings, and
- Take reasonable measures to safeguard protected PII and other information the federal awarding agency or pass-through entity designates as sensitive or the non-federal entity considers sensitive consistent with applicable federal, state and local laws regarding privacy and obligations of confidentiality.

Procurement Standards

This guidance is largely based on the guidance previously located in Circular A-102. Therefore non-federal entities that are currently subject to Circular A-110 are more likely significantly affected. The Uniform Guidance for Federal Awards has revised the guidance as found in the Circulars, and thus, all entities should carefully review the procurement standards to determine the impact on their procurement procedures.

Requirements for pass-through entities

All pass-through entities must:

- Ensure that every subaward is clearly identified to the subrecipient as a subaward and include the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the federal award and subaward:
 - Required information includes
 - Subrecipient name
 - Subrecipient’s DUNS number
 - Federal award identification number
 - Federal award date
 - Subaward period of performance start and end date
 - Amount of federal funds obligated by this action
 - Total amount of federal funds obligated to the subrecipient
 - Federal award project description
 - Name of federal awarding agency, pass-through entity and contact information for awarding official
 - CFDA number and name; pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at the time of disbursement
 - Identification of whether the award is R & D
 - Indirect cost rate for the award

- All requirements imposed by the pass-through entity on the subrecipient so that the award is used in accordance with federal statutes, regulations and terms and conditions of the award
 - Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the federal awarding agency
 - An approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient, or a de minimis indirect cost rate
 - A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statement as necessary for the pass-through entity to satisfy the requirements of this section
 - Appropriate terms and conditions concerning closeout of the subaward.
- Evaluate each subrecipient's risk of noncompliance with federal statutes, regulations and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring, which may include factors such as:
 - The subrecipient's prior experience with the same or similar subawards
 - The results of previous audits, including whether or not the subrecipient receives a single audit under Subpart F, and the extent to which the same or similar subaward has been audited as a major program
 - Whether the subrecipient has new personnel or new or substantially changed systems, and
 - The extent and results of federal awarding agency monitoring
- Consider imposing specific subaward conditions upon a subrecipient if appropriate
- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with the federal statutes, regulations and terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
 - Reviewing financial and programmatic reports required by the pass-through entity
 - Following up and ensuring that the subrecipient takes timely corrective action on all deficiencies pertaining to the award identified in audits, on-site reviews and other means
 - Issuing management decisions for audit findings as required

- Depending on the pass-through entity's assessment of risk posed by the subrecipient, the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:
 - Providing subrecipients with training and technical assistance on program related matters
 - Performing on-site reviews of the subrecipient's program operations
 - Arranging for agreed-upon procedures engagements
- Verify that every subrecipient is audited as required by Subpart F, when it is expected that the subrecipient's federal awards will equal or exceed the threshold
- Consider whether the results of the subrecipient's audits, on-site reviews and other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records
- Consider taking enforcement actions against noncompliant subrecipients

Subpart E – Cost Principles

The cost principles primarily result from the consolidation of the earlier circulars (A-21, A-87 and A-122). Auditees and auditors should identify and understand the difference between the cost principles established in Subpart E and those to which the entity was previously subject. Federal awards and incremental funding received after December 26, 2014 will be subject to different cost principles and administrative requirements than those received before that date.

Application of the cost principles is based on the fundamental premises that:

- The non-federal entity is responsible for the efficient and effective administration of the federal award through the application of sound management practices;
- The non-federal entity assumes responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives and the terms and conditions of the federal award;
- The non-federal entity, in recognition of its own unique combination of staff, facilities and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary to assure proper and efficient administration of the federal award;
- The application of the cost principles should require no significant changes in the internal accounting policies and practices of the non-federal entity; however, the accounting must be consistent with the cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the federal award:

- In reviewing, negotiating and approving cost allocation plans or indirect cost rate proposals, the cognizant agency for indirect costs should generally assure that the non-federal entity is applying the cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals; where wide variations exist in the treatment of a given cost item by the non-federal entity, the reasonableness and equity of such treatments should be fully considered;
- For non-federal entities that educate and engage students in research, the dual role of students both trainees and employees contributing to the completion of federal awards for research must be recognized in the application of the principles;
- The non-federal entity may not earn or keep any profits resulting from federal financial assistance, unless expressly authorized by the terms and conditions of the federal award.

The cost principles are to be used in determining the allowable costs of work performed under federal awards. The principles are also to be used by the non-federal entity as a guide in pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price.

The principles do not apply to:

- Arrangements under which federal financing is in the form of loans, scholarships, fellowships, traineeships or other fixed amounts based on such items as education allowances or published tuition rates and fees;
- For institutions of higher education (IHEs) capitation awards, which are awards based on case counts or number of beneficiaries according to the terms and conditions of the federal award;
- Fixed amount awards;
- Federal awards to hospitals;
- Other awards under which the non-federal entity is not required to account to the federal government for actual costs incurred.

Basic considerations

The total cost of a federal award is the sum of the allowable direct and allocable indirect costs, less any applicable credits.

Except where otherwise authorized by statute, costs must meet the following general criteria to be allocable under federal awards:

- Be necessary and reasonable for the performance of the award and be allocable thereto under the principles;
- Conform to any limitations or exclusions set forth in the principles, or in the federal award as to types or amount of cost items;
- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity;

- Be accorded consistent treatment, such that a cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost;
- Be determined in accordance with GAAP, except as otherwise provided;
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or prior period;
- Be adequately documented.

Reasonable costs

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made. Consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-federal entity or the proper and efficient performance of the federal award;
- The restraints or requirements imposed by factors such as sound business practices, arm's length bargaining, federal, state and other laws and regulations, and terms and conditions of the federal award;
- Market prices for comparable goods or services in the geographic area;
- Whether the individuals involved acted prudently in the circumstances considering their responsibilities to the non-federal entity, its employees, where applicable its students or membership, the public at large, and the federal government;
- Whether the non-federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost.

Allocable costs

A cost is allocable to a federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with the relative benefits received. This standard is met if the cost:

- Is incurred specifically for the federal award;
- Benefits both the federal award and other work of the non-federal entity and can be distributed in proportions that may be approximated using reasonable methods, and
- Is necessary to the overall operation of the non-federal entity and is assignable in part to the federal award in accordance with the principles.

All activities which benefit from the non-federal entity's indirect cost (facilities and administration or "F & A"), including unallowable activities and donated services by the non-federal entity or third parties, will receive an appropriate allocation of indirect costs.

Any cost allocable to a particular federal award under the principles provided for may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of the federal awards, or for other reasons. However, this prohibition would not preclude the non-federal entity from shifting costs that are not allowable under two or more awards.

Direct cost allocation principles

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

Where the purchase of equipment or other capital asset is specifically authorized under a federal award, the costs are assignable to the federal award regardless of the use that may be made of the equipment or capital asset when it is no longer needed for the purpose for which it was originally required.

Applicable credits

Applicable credits refer to those receipts or reductions of expenditure transactions that offset or reduce expense items allocable to federal awards as either direct or indirect costs. Examples include purchase discounts, rebates, recoveries or indemnities on losses, insurance refunds or rebates, adjustments of overpayments or erroneous charges. Such items allocable to a federal award must be credited as either a cost reduction or cash refund.

Prior written approval

Under any award, the reasonableness and allocability of certain items of cost may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the recipient may seek prior written approval of the cognizant agency for indirect costs or the awarding agency in advance of the incurrence of special or unusual costs. Such approval should include the timeframe or scope of the agreement. The absence of prior written approval will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required elsewhere.

Limitation on allowability of costs

The award may be subject to statutory requirements that limit the allowability of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles, the amount not recoverable may not be charged to the award.

Special considerations

In addition to the basic considerations, other subtitles describe special considerations and requirements applicable to states, local governments, Indian tribes, and institutions of higher education. Certain provisions among the items of cost are only applicable to certain types of non-federal entities.

Collection of unallowable costs

Payments made for costs determined to be unallowable by the federal awarding agency, cognizant agency or pass-through entity, either as direct or indirect cost, must be refunded (including interest) to the federal government in accordance with the instructions for the agency that determined the costs are unallowable, unless the federal statute or regulations direct otherwise.

Adjustment of previously negotiated indirect (F & A) cost rates containing unallowable costs

Negotiated indirect cost rates based on a proposal later found to have included costs that:

- Are unallowable as specified in federal statutes, regulations or the terms and conditions of a federal award, or
- Are unallowable because they are not allocable to the federal award

must be adjusted, or a refund must be made. The adjustment or refund is designed to correct the proposals used to establish the rates that do not constitute a reopening of the rate negotiation. The adjustment or refund will be made regardless of the type of rate (predetermined, final, fixed or provisional).

Classification of costs

There is no rule for classifying a cost as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to another. It is therefore essential that each item of cost incurred for the same purpose be treated consistently as either direct or indirect in order to avoid double-charging federal awards.

Direct costs

Direct costs are those that can be identified specifically with a particular cost objective, such as a federal award or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct costs or indirect costs.

The determining factor in distinguishing direct costs from indirect costs is identification with the federal award. Typical costs charged directly to a federal award are the compensation of employees who work on that award, their related fringe benefits, the cost of materials and other items of expense incurred for the award. If directly related to a specific award, certain costs that would otherwise be treated as indirect costs, may also be treated as direct costs. These include extraordinary utility consumption, costs of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.

The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate if all of the following conditions are met:

- Administrative or clerical service are integral to a project or activity;
- Individuals involved can be specifically identified with the project or activity;
- Such costs are explicitly included in the budget or have the prior written approval of the awarding agency, and
- The costs are not also recovered as indirect costs.

Minor items - Any direct cost of minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item is consistently applied to all federal and nonfederal activities.

Nonallowable costs - Certain items are nonallowable as charges to federal awards. None the less, such charges must be treated as direct costs for purposes of determining indirect cost rates, and must be allocated their share of the entity's indirect costs if they represent activities which:

- Include the salaries of personnel,
- Occupy space, and
- Benefit from the entity's indirect costs.

For nonprofit organizations, costs of activities performed by the entity primarily as a service to members, clients or the general public when significant and necessary to the entity's mission must be treated as direct costs, whether or not allowable, and be allocated a share of indirect costs. Examples include:

- Maintenance of membership rolls, subscriptions, publications and related functions
- Providing services and information to members, legislative or administrative bodies or the public
- Promotion, lobbying and other forms of public relations
- Conferences, except those held to conduct the general administration of the entity
- Maintenance, protection and investment of special funds not used in operation of the entity
- Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid

Indirect costs

For major institutions of higher education (those required to use the Standard Format for Submission) and major nonprofit organizations (those with more than \$10 million in *direct* federal funding), indirect costs must be classified within two broad categories, *facilities* and *administration*.

Facilities costs include depreciation on buildings, equipment and capital improvements, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

Administration costs include general expenses, such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of *facilities*.

Because of the diversity of nonprofit organizations, it is not possible to specify the types of costs which may be classified as indirect costs in all situations. Again, the determining factor is whether a cost is identified with a federal award. However, typical examples of indirect costs include building and equipment depreciation, costs of operating and maintaining facilities, and general administration expenses, such as salaries and expenses of executive officers, personnel administration and accounting.

Negotiated indirect cost rates must be accepted by all federal agencies. A federal agency may use a different rate only when required by federal statute or when approved by an awarding agency head or delegate based on documented justification.

The awarding agency must implement and make publicly available the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.

Any entity that has never received a negotiated indirect cost rate (with some exceptions) may elect to charge a de minimus rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. Costs must be consistently charged as either direct or indirect, but may not be double charged or inconsistently charged as both. If elected, this methodology must be used consistently for all federal awards until such time as an entity chooses to negotiate for a rate, which the entity may apply for at any time.

Any entity that has a negotiated indirect cost rate may request a one-time extension of a current negotiated indirect cost rate for a period of up to four years. The extension is subject to review and approval of the cognizant agency for indirect costs. If granted, the entity may not request a rate review until the extension period ends. At the end of the extension, the entity must reapply to negotiate a rate.

Required certifications must accompany annual and final fiscal reports or vouchers requesting payment under the agreements. The certification must be signed by an official authorized to legally bind the entity. The certification reads:

“By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.”

In addition, each cost allocation plan or cost rate proposal must comply with the following:

- A proposal to establish a cost allocation plan or indirect cost rate, whether submitted to a federal cognizant agency or maintained on file by the entity, must be certified by the entity, using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices III through VII. The certificate must be signed on behalf of the entity by an individual at a level no lower than vice-president or chief financial officer.
- Unless the entity has elected the option to use the 10% of MTDC, the federal government may either disallow all indirect costs or unilaterally establish such a plan or rate when the entity fails to submit a certified proposal for establishing such a plan or rate. Such a plan or rate may be based on audited historical cost or such other data that have been furnished to the cognizant agency for indirect costs and for which it can be demonstrated that all nonallowable costs have been excluded. When a cost allocation plan or indirect cost rate proposal has been unilaterally established by the federal government because the entity failed to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

Nonprofit organizations that do not meet the \$10 million threshold should certify that they do not meet the major corporation definition.

Special considerations for states, local governments and Indian tribes

Certain services, such as motor pools, computer centers, purchasing, accounting, etc. are provided to operating agencies on a centralized basis. Since federal awards are performed within the individual operating agencies, there needs to be a process whereby the central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process.

Individual operating agencies normally charge federal awards for indirect costs based on an indirect cost rate. A separate indirect cost rate proposal for each operating agency is usually necessary to claim indirect costs under federal awards. Indirect costs include:

- Indirect costs originating in each department or agency of the government carrying out the federal awards, and
- The costs of central services distributed through the central service cost allocation plan, and not otherwise treated as direct costs

The requirements for development and submission of cost allocation plans for central service costs and public assistance programs are contained in Appendices IV, V and VI.

The cost of services provided by one agency to another may include the allowable direct costs of the service plus a pro-rated share of the indirect costs. A standard indirect cost allowance of 10% of the direct salary and wage cost of providing the service (excluding overtime, shift premiums and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans.

Special considerations for institutions of higher education

Costs incurred or paid by a state or local government of its IHEs for fringe benefit programs (e.g. pension costs, FICA) are allowable costs whether or not these costs are recorded in the accounting records of the IHEs, subject to the following:

- The costs meet the requirements of 200.402 through 200.411 (Basic Considerations,” page 29 above)
- The costs are properly supported by approved cost allocation plans in accordance with applicable federal cost accounting principles, and
- The costs are not otherwise borne directly or indirectly by the federal government.

An IHE that received aggregate federal awards totaling \$50 million or more in its most recently completed fiscal year must comply with the Cost Accounting Standards Board’s cost accounting standards, located at 48 CFR 9905.501 through 9905.506. Such IHEs must also disclose their cost accounting practices by filing a disclosure statement (DS-2) which is reproduced in Appendix III to Part 200. The DS-2 must be submitted to the cognizant agency for indirect costs with a copy to the cognizant agency for audit. An IHE is responsible for maintaining an accurate DS-2 and complying with its disclosed cost accounting practices. Amendments to the DS-2 must be filed with the cognizant agency for indirect costs six months in advance of a disclosed practice being changed to comply with a new or modified standard, or when practices are changed for any other reason. The IHE may proceed with the change only if it has not been notified that either a longer period will be necessary for review or there are concerns with the potential change within the six-month period. Amendments may be submitted at any time.

Cost adjustments must be made by the cognizant agency for indirect costs if an IHE fails to comply with these cost policies or fails to consistently follow its established or disclosed cost accounting practices. Any excess amounts paid due to a noncompliant cost accounting practice must be credited or refunded. Interest applicable to excess amounts paid during the period of noncompliance must also be determined and collected.

The cognizant agency for indirect cost must:

- Determine any cost adjustments
- Prescribe guidelines and establish internal procedures to determine that a DS-2 adequately discloses the IHEs cost accounting practices and that the disclosed practices are compliant with the applicable standards, and
- Distribute to all affected federal awarding agencies any DS-2 determination of adequacy or noncompliance.

General provisions for selected items of cost

The following is an abbreviated summary of the costs addressed in §200.421 – 200.475:

Advertising

Costs related to personnel recruitment, procurement of goods and services, disposal of surplus materials, or other specific purposes necessary to meet award requirements (and not prohibited below). Public relations costs are allowable to the extent they are costs specifically required by the award, relate to communicating with the public and press about specific activities or accomplishments resulting from performance of awards, or relate to conducting general liaison with media and public affairs officers regarding matters of public concern.

Unallowable advertising and public relations costs include:

- Any costs not specifically allowable above
- Cost of meetings, conventions, convocations or other events related to other activities of the entity, such as display, demonstrations and exhibits; meeting rooms, hospitality suites connected with shows and other special events; salaries and wages of employees engaged in displays and exhibits; costs of promotional items and memorabilia, gifts and souvenirs
- Costs of advertising and public relations designed solely to promote the non-federal entity

Advisory councils

Not allowable, unless authorized by statute, the awarding agency or as an indirect cost, where allocable to a federal award.

Alcoholic beverages

Not allowable.

Alumni activities

Not allowable.

Audit services

A reasonably proportionate share of the audit cost, provided the audit is required under the Single Audit Act of 1996, as amended, are allowable.

Nonallowable audit costs are:

- Those not conducted or conducted but not in accordance with Subpart F, or
- Any audit costs for an entity exempted from having an audit because its expenditures under federal awards were less than \$750,000 during its fiscal year

The costs of a financial statement audit of an entity that does not currently have a federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost rate proposal.

Pass-through entities may charge federal award for the cost of agreed-upon procedures engagements to monitor subrecipients, if the agreed-upon procedure engagements are:

- Conducted in accordance with GAGAS for attestation engagements
- Paid for and arranged by the pass-through entity, and
- Limited in scope to one or more of the following compliance requirements:
 - Activities allowed or unallowed
 - Allowable costs/cost principles
 - Eligibility
 - Reporting

Bad debts

Not allowable, including losses (actual or estimated) arising from uncollectable accounts and other claims, related collection costs and related legal costs.

Bonding costs

Allowable to the extent they are required in the terms of the award, or otherwise in accordance with sound business practice, as long as rates and premiums are reasonable.

Collection of improper payments

Costs incurred to recover improper payments are allowable as either direct or indirect costs, as appropriate.

**Commencement
and convocation**

Generally unallowable.

**Compensation for
personal services**

All remuneration for personal services, paid currently or accrued, including fringe benefits, are allowable to the extent they are (1) reasonable and conform to policy of the governmental unit consistently applied, (2) follows an appointment made in accordance with the governmental unit's laws and rules and meets merit system or other requirements required, and (3) is determined and supported as required below.

Reasonableness of compensation is determined based on consistency with the amount paid for similar work in other activities of the entity. In cases where no similar work is found, compensation is reasonable to the extent it is comparable to that paid for similar work in the labor market in which the employing entity competes. Compensation surveys are an acceptable basis for evaluating reasonableness.

Costs which are unallowable under other sections of the principles are not allowable under this section solely on the basis that they constitute personnel compensation.

The allowable compensation for certain employees is subject to a ceiling in accordance with statute. For the amount of the ceiling for cost-reimbursement contracts, the covered compensation subject to the ceiling, the covered employees and other relevant provisions, see 10 USC 2324 and 41 USC 1127.

Incentive compensation based on cost reduction or efficient performance, suggestion awards, safety awards, etc. is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the entity and employees before the services were rendered, or pursuant to an established plan followed by the entity, so consistently as to imply, in effect, and agreement to make such payment.

For compensation to members of **nonprofit organizations**, trustees, directors, associates, officers or the immediate families thereof, compensation is reasonable for the actual services rendered, rather than a distribution of earnings in excess of costs. This may include directors' and executive committee members' fees, incentive awards, allowances for off-site pay, incentive pay, location allowances, hardship pay and cost-of-living differentials.

In **institutions of higher education**, certain conditions require special consideration and possible limitations in determining allowable personnel compensation costs under federal awards. See §200.430 for details regarding allowable activities, incidental activities and other guidance beyond the scope of this text.

Documentation is required for personnel expenses. Charges to federal awards must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated
- Be incorporated into the official records of the entity
- Reasonably reflect the total activity for which the employee is compensated by the entity, not exceeding 100% of compensated activities
- Encompass both federally assisted and all other activities compensated by the entity on an integrated basis, but may include the use of subsidiary records as defined in the entity's written policy
- Comply with established accounting policies and practices of the entity
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award, a federal award and nonfederal award, an indirect cost activity and a direct cost activity, two or more indirect cost activities allocated using different methodologies, or an unallowable activity and a direct or indirect cost activity.

Budget estimates or percentages determined before the services are performed are not solely adequate support for charges to federal awards, but may be used for interim accounting purposes, provided that:

- The system produces a reasonable approximation of activity usually performed
- Significant changes in the corresponding work activity are identified and entered into the records in a timely manner
- The entity's system of internal controls includes processes to review after-the-fact interim charges made to a federal award based on budget estimates – all necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable and properly allocated

For records that meet the standards required, the entity will not be required to provide additional support or documentation for the work performed.

In accordance with Department of Labor regulations, charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described, must be supported by records that indicate the total number of hours worked each day.

Salaries and wages used to meet matching or cost sharing requirements must be supported in the same manner as those claimed for reimbursement.

Substitute processes or systems for allocating salaries and wages to federal awards may be used in place of or in addition to the records described above, if approved by the cognizant agency for indirect costs. Such systems may include random moment sampling, rolling time studies, case counts, or other quantifiable measures of work performed.

For an entity whose records do not meet the standards described, the federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation that support the records as required in this section.

Fringe benefits include, but are not limited to leave, employee insurance, pensions and unemployment benefit plans. These are allowable to the extent that the benefits are reasonable and are required by law, employee agreement or established policy. The costs of fringe benefits in the form of compensated leave (annual leave, sick leave, holidays, court leave, military leave) are allowable if they are provided under established leave policy, the costs are equitably allocated to all related activities, and the accounting basis selected is consistently followed by the entity. If the cash basis is used, the cost of leave is recognized in the period the leave is taken and paid for. Payments for unused leave when an employee retires or terminates are allowable in the year of payment, provided they are allocated as a general administrative expense to all activities of the entity. The accrual basis may be used only for types of leave recognized under GAAP; when the accrual basis is used, allowable leave is the lesser of the amount accrued or funded.

Insurance provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation

program are allowable to the extent that they represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions which do not become payable for more than a year after the provision is made may not exceed the present value of the liability.

Cost of insurance on the lives of trustees, officers or other similar positions are allowable only to the extent that the insurance represents additional compensation. The cost of such insurance where the entity is named as beneficiary is unallowable.

Automobile costs for furnished vehicles, to the extent they relate to personal use is unallowable as a fringe benefit or indirect cost, regardless of whether the cost is reported as taxable income to the employee.

Pension plan costs may be computed using a pay-as-you-go or acceptable actuarial method, in accordance with the written policies of the governmental unit. Pension costs calculated using an actuarial cost based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the entity's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund. Amounts funded by the entity in excess of the actuarially determined amount for a fiscal year may be used as the entity's contribution in future periods. When an entity converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP. The Federal Government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the entity in the form of a refund, withdrawal, or other credit.

Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection e. for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay as you go method or an acceptable actuarial cost method in accordance with established written policies of the entity. For PRHB financed on a pay as you go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries. PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund. Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period. When an entity converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

To be allowable in the current year, the PRHB costs must be paid either to:

- An insurer or other benefit provider as current year costs or premiums, or
- An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

Severance pay is allowable to the extent it is required by law or employer-employee agreement, established policy that constitutes an implied agreement, or the circumstances of the particular employment.

Donated services may be provided by professional or technical persons, consultants and skilled and unskilled laborers. These costs are not reimbursable as either direct or indirect costs, but may be used to meet cost sharing or matching requirements. To the extent possible, donated services should be documented in the same manner as compensated services.

Conferences Conferences for the purpose of dissemination of information necessary to the successful performance of the award are allowable including rental of facilities, speaker fees, costs of meals and refreshments, local transportation and other incidental costs.

Contributions and donations Costs of contributions and donations, whether cash, property or services are nonallowable.

Contingencies Contributions to a contingency reserve or any similar provision made for events, the occurrence of which cannot be foretold with certainty as to time, intensity or with an assurance of their happening are not allowable. The term “contingency reserve” excludes self-insurance reserves, pension plan reserves, and other post-employment benefit reserves computed using acceptable actuarial methods.

Defense and prosecution of criminal and civil proceedings and claims Costs to defend any criminal or civil fraud or similar proceeding brought by the federal government where the contractor is found liable or pleaded no contest, as well as costs incurred by a contractor in connection with any civil, criminal or administrative proceeding commenced by the federal government, are not allowable

Legal fees required to administer a federal award are allowable. Legal fees for prosecution of claims against the federal government are not allowable.

Depreciation and use allowances Within a single class of assets (buildings, office equipment,

computer equipment, etc.) both depreciation and a use allowance cannot be claimed. Depreciation must be based on historical acquisition cost, or if unavailable, estimated historical cost. Donated assets are valued at their fair market value at the time of donation *by an unrelated third party* (which excludes governmental organizations within the same state).

Depreciation and use allowances must exclude the cost of land, and buildings and equipment, to the extent provided by Federal awards, and any portion contributed by/for the entity in fulfillment of a matching requirement.

Where use allowances are employed, the use allowance for buildings and improvements (e.g., parking areas, fences and sidewalks) is two percent of acquisition cost. Building components may not be disaggregated from the building's shell, and classified as equipment. In general, equipment is movable without destruction of, or need of costly repairs to, the building. The use allowance for equipment is six and two-thirds percent of acquisition cost.

Where depreciation is charged to a program, the useful life must consider the type of construction, nature of the equipment used, historical usage patterns, technology developments, and the renewal and replacement policy of the entity. In the absence of clear evidence to the contrary, the straight line method must be used. Federal approval is required for any change in depreciation methods.

Component depreciation may be used for buildings. Reasonable use allowances may be negotiated for fully depreciated assets.

At least biennially, an inventory of fixed assets must be taken to ensure that the assets exist and are in use. Historical cost and depreciation records must be maintained.

Entertainment

Including amusement, diversion, and social activities and any costs directly associated with such costs, such as tickets to shows or sporting events, meals, lodging, rentals, transportation and gratuities, are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the award or have prior written approval from the awarding agency.

Equipment and other capital expenditures

Capital expenditures means expenditures for the acquisition of cost capital assets or expenditures to make improvements to capital assets that materially increase their value or prolong their useful lives. *Equipment* means personal property having a useful life or more than one year and an acquisition cost above the lesser of the government's capitalization level or \$5,000. *Special purpose equipment* means equipment for research, medical, scientific or other technical activities. *General purpose equipment* is equipment not limited to those activities.

Capital expenditures for general purpose equipment, buildings and land are unallowable unless approved in advance. Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a cost of \$5,000 or more have advance approval. Capital expenditures that improve land, buildings or equipment are unallowable as a direct cost, unless prior approval is obtained.

When approved as a direct cost, capital expenditures must be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate or negotiated with the awarding agency. Awarding agencies are authorized at their options to waive or delegate the prior approval requirement.

Equipment and other capital expenditures are unallowable as indirect costs (but may be allowable depreciation or use allowance as established above).

Fines and penalties

Nonallowable, unless incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency in advance.

Fund raising and investment management costs

Fund raising costs are unallowable, regardless of the purpose for which the funds will be used. Investment management costs are unallowable, except to the extent related to pension, self-insurance or other funds which have Federal participation. Fund raising and investment activities are to be allocated a proportionate share of indirect costs.

**Gains and losses
on disposition of
depreciable
assets**

Gains and losses on sale, retirement or other disposition of depreciable property must be included in the year in which they occur as credits or charges to the asset cost groupings in which the property was included. The amount of gain or loss is the difference between the amounts realized and the undepreciated basis of the asset.

Gains and losses from disposition of depreciable property must *not* be recognized as a separate credit or charge if:

- The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable
- The property is given in exchange as part of the purchase price of a similar asset and taken into account in the determination of the depreciable basis of the new item
- A loss results from the failure to maintain permissible insurance
- Compensation for the use of the property was provided through use allowances in lieu of depreciation
- Gains and losses arising from mass or extraordinary sales, retirements or other dispositions must be considered on a case-by-case basis
- Gains and losses on sale or exchange of property other than that provided in this section (such as land) must be excluded in computing federal award costs
- When assets acquired with federal funds (in whole or part) are disposed of, the distribution of the proceeds must be made §200.310, insurance coverage, through §200.316.

**General government
expenses**

Salaries and expenses of the chief executive officer, legislative bodies, judicial activities, prosecutorial activities (unless treated as a direct cost to a specific program where authorized in program regulations), and other general government expenses (such as police and fire protection) are unallowable.

**Goods or services
for personal use**

The cost of goods or services for personal use of the entity's employees are unallowable, regardless of whether they were treated as taxable income to the employees. The cost of housing, housing allowances and personal living expenses are allowable only as direct costs, regardless of whether they are treated as taxable income to the employees, and only upon advance approval by the awarding agency.

Idle facilities

Unallowable, except to the extent that they are necessary to meet the fluctuations in workload, or result from changes in the program requirements, economy efforts, reorganization or other changes that could not reasonably be foreseen.

Insurance

Costs of insurance and indemnification required are allowable. Insurance costs connected to the general conduct of activities are allowable but the type and extent and cost of coverage must be consistent with the entity's policy and sound business practice. Cost of insurance or contributions to any reserve covering the risk of loss of, or damage to, Federal government property are unallowable, except the extent the awarding agency has specifically required or approved such costs.

Actual losses which could have been covered by permissible insurance are unallowable, unless expressly provided for in the award; however, the Federal government will participate in actual losses of a self-insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of hand tools, which occur in the ordinary course of business, are allowable.

Contributions to self-insurance programs, including workers compensation, unemployment compensation, and severance pay are allowable, subject to the following provisions:

- Type and extent of coverage and rates and premiums would have been allowed had insurance been purchased to cover the risks. Provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made cannot exceed the discounted present value of the liability.
- Earnings or investment income on reserves must be credited to those reserves.
- Contributions to reserves must be based on sound actuarial principles, using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk insured, and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverage will be limited to the value of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not submitted. Reserve levels in excess of those amounts must

be identified and justified in the cost allocation plan or indirect cost rate proposal.

- Accounting records, actuarial studies and cost allocations or billings must recognize any significant differences due to types of insured risks and losses generated.
- Whenever funds are transferred from a self-insurance reserve to other funds, the federal government shall be refunded its share of the transferred amount, including interest earned or imputed from the date of the transfer.

Actual claims paid for workers compensation, unemployment compensation, severance or similar benefits are allowable in the year of payment, provided the entity follows a consistent costing policy and such costs are allocated as a general administrative expense to all activities of the entity.

Insurance refunds are to be credited to the insurance costs in the year the refund is received.

Intellectual property

The following costs related to securing patents and copyrights are allowable:

- Costs of preparing disclosures, reports and other documents required by the award, and of searching the art to the extent necessary to make such disclosures
- Costs of preparing documents and other patent costs in connection with filing and prosecution of a patent application, where title or license is required to be conveyed to the federal government
- General counseling services relating to such patents and copyright matters

The following costs related to securing patents and copyrights are unallowable:

- Costs of preparing disclosures, reports and other documents not required by the federal award
- Costs in connection with filing and prosecution of any foreign patent application, or any U.S. patent where the federal government does not require conveying of title to the federal government

Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent or rights to same necessary for the performance of the award are allowable unless:

- The federal government already has the right to use the patent or copyright
- The patent or copyright has been adjudicated invalid
- The patent or copyright is unenforceable
- The patent or copyright has expired

Interest

Costs incurred related to borrowed capital or the use of a entity's own funds are unallowable, except for those costs specifically provided or authorized by federal legislation. Costs which are related to otherwise allowable building acquisition, construction, fabrication, remodeling or reconstruction., or otherwise allowable equipment, where (a) the financing is provided by an external third party, (b) the underlying assets support the federal award, (c) any earnings on debt proceeds invested temporarily are used to offset the current period cost or capitalized interest (amounts subject to arbitrage requirements are exempted), (d) negotiation may be required in certain circumstances and (e) interest attributable to fully depreciated assets is unallowable.

Lobbying

Lobbying includes influencing activities associated with obtaining grants, contracts cooperative agreements or loans, and is nonallowable.

Maintenance, operations and repairs

To the extent they (a) keep property in efficient operating condition, (b) do not add to the permanent value of property and (c) are not otherwise included in rental and other charges, these costs are allowable. Costs which add to the permanent value of property or appreciably prolong its life are treated as capital expenditures.

Materials and supplies

Materials and supplies, including costs of computing devices, are allowable at net delivered cost, including withdrawals from general stores or stockrooms. Purchased materials and supplies must be charged at their actual prices, net of allowable credits

Memberships

Technical, professional and business organizations are allowable, as are subscriptions to publications of such organizations, and the costs of meeting and conferences for similar purposes (including associated travel). Cost of memberships in civic or community organizations is allowable with prior approval of the awarding agency. Cost of membership in any social club, country or dining club are unallowable. Cost of memberships in organizations substantially engaged in lobbying are unallowable.

Professional services	Professional and consultant fees for services are allowable, including retainer fees supported by evidence of bona fide services rendered.
Proposal costs	Cost of preparing proposals for potential awards are allowable (usually as indirect costs); if charged directly to an award, advance approval is required.
Publication and printing costs	Such costs, including distribution, promotion mailing and general handling are allowable.
Rearrangements and alterations	Ordinary and normal costs are allowable. Special arrangements and alterations require advance approval.
Relocation cost of employees	The cost of relocating employees are allowable, provided that: <ul style="list-style-type: none"> • The move is for the benefit of the employer • Reimbursement to the employee is in accordance with an established written policy consistently followed • The reimbursement does not exceed the employee's actual cost
Rentals	To the extent the rates are reasonable in light of costs of comparable property, market conditions, alternatives available and the type, life expectancy, condition and value of the property leased
Taxes	Taxes that an entity is legally required to pay are allowable, except a government's self-assessed taxes that disproportionately affect the Federal awards.
Training	Costs of employee development are allowable.
Travel	Transportation, lodging, subsistence, and related items incurred by employees traveling on official business, whether on actual costs, per diem allowances, mileage reimbursement or a combination, provided the same method is used for the entire trip. Reasonableness of these expenses is to consider the normal policies and limitations. <p>Airfare must be at the coach rate, unless such fare would (a) require circuitous routing, (b) require travel at unreasonable hours, (c) excessively prolong travel, (d) greatly increase the duration of</p>

the flight, (e) result in additional costs that would offset the transportation savings, or (f) not be suitable for the medical needs of the traveler. The entity must justify and document these conditions on a case-by-case basis in order for the first-class airfare to be allowable.

Unless a pattern of avoidance is detected, the federal government will not generally question an entity's determination that customary standard airfare or other discount airfare is unavailable for specific trips if the entity can demonstrate that (a) such airfare was not available in the specific case, or (b) it is the entity's overall practice to make routine use of standard (coach) airfare.

Cost of travel by entity-owned, -leased or -chartered aircraft include the cost of the lease, charter, operation, maintenance, depreciations, insurance and other related costs. The portion of such costs that exceeds the cost of allowable commercial airfare is unallowable.

Chapter 3
Applicable OMB Unified Circular Guidance – Subpart F
Audit Requirements

General A nonfederal entity that expends \$750,000 or more in a fiscal year in federal awards must have a single audit or program-specific audit conducted for that year. Program-specific audits are permissible when the entity expends federal awards under only one federal award program (excluding R & D) and the federal program’s statutes, regulations or the terms and conditions of the federal award do not require a financial statement audit of the entity. A program specific audit may not be elected for R & D programs unless all of the federal awards expended were received from the same federal agency, or the same federal agency and the same pass-through entity, and the federal agency or pass-through entity approves the program-specific audit in advance.

An entity that spends less than \$750,000 in a fiscal year is exempt from federal audit requirements, but must maintain records for review or audit by appropriate officials of the federal agency, pass-through entity or the Government Accountability Office (GAO).

An auditee may simultaneously be a recipient, subrecipient and a contractor. Federal awards expended as a recipient or subrecipient are subject to audit. Payment for goods and services received as a contractor are not federal awards.

In most cases, the auditee’s responsibility for contractors is only to ensure that the procurement, receipt and payment for goods and services comply with the federal statutes, regulations and the terms and conditions of federal awards. Compliance requirements do not normally pass down to contractors. However, the auditee is responsible for ensuring compliance for procurement transactions which are structured such that the contractor is responsible for program compliance or the contractor’s records must be reviewed to determine compliance.

Since the Circular does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements as necessary to ensure compliance by for-profit subrecipients. The agreement should describe the applicable compliance requirements and the for-profit subrecipient’s compliance responsibility.

Basis for determining federal awards expended The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-federal entity to comply with laws, regulations, contracts and grant provisions, such as expenditure/expense transactions, cost-reimbursement contracts, cooperative agreements and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of commodities; the disbursement of amounts that entitle the entity to an interest subsidy; and the period when insurance is in force.

Since the federal government is at risk for loans until the debt is repaid, the following guidelines establish the amount of federal award expended under loan programs:

- Value of new loans made or received during the fiscal year, plus
- Balance of loans from the previous years for which the Federal government imposes continuing compliance requirements, plus
- Any interest subsidy, cash or administrative cost allowance received.

For student loans made, but the educational institution does not make the loans, only the value of loans made during the year is considered federal awards expended in that year, since the lender accounts for prior balances.

The use of loan proceeds under loan or loan guarantee programs constitutes expenditure of federal awards. Loans, the proceeds of which were received and expended in prior years, are not considered federal awards expended when the laws, regulations, and the provisions of the contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

The cumulative balance of federal awards for endowment funds that are federally restricted are considered federal awards expended in each audit period in which the funds are still restricted.

Free rent received by itself (i.e., with no other federal awards expended) is not considered a federal award expended, unless it is received as part of an award to carry out a federal program.

Non-cash assistance, such as free rent, food stamps, commodities, donated property or donated surplus property should be valued at its fair value at the time of receipt or the assessed value provided by the federal agency.

Medicare and Medicaid are considered direct aid to the recipient, and are not considered federal awards expended.

Relation to other audit requirements An audit made under this part is in lieu of any financial audit required under individual federal awards. Should any federal agency conduct or contract for additional audits, it must arrange funding for the full cost of those additional audits.

However, any federal agency can request that any federal program be treated as a major program, provided it gives the auditee 180 days written notice. The auditee is to consult with its auditor as to whether the program would likely have been a major program under the risk-based determination of major programs. If not, the auditee should communicate that fact and the estimated incremental cost of including the specific program as a major program, to the federal agency. The agency is to “promptly” notify the auditee as to whether the program should be treated as major, with the incremental cost borne by the

agency. A pass-through recipient may also apply the same provisions to a sub-recipient.

Audit frequency The Circular requires that audits be performed annually, except that federal agencies of pass-through entities may allow auditees electing program-specific audits to have the audit performed every two years (to include transactions of both years) for:

- State or local governments required by constitution or statute, in effect January 1, 1987, to have audits less frequently than annually;
- Non-profit organizations that had biennial audits for all biennial periods ending between July 1, 1992 and January 1, 1995.

Sanctions No audit costs can be charged to federal awards when audits have not been performed under this part. Failure to meet the audit requirements, whether through “continued inability or unwillingness” will subject an entity to sanctions imposed by the federal or pass-through agency such as:

- Withholding a percentage of federal awards until the audit is satisfactorily completed;
- Withholding or disallowing overhead costs;
- Suspending Federal award until the audit is conducted; or
- Terminating the Federal award.

Program-specific audits When performing a program-specific audit, the auditor should contact the office of the Inspector General of the federal agency to determine whether a program-specific audit guide is available. If so, the auditor must follow *Government Auditing Standards* and the program-specific guide.

If no program-specific guide is available, the auditor’s responsibility for the federal program is essentially the same as if it were a major program in a single audit. The auditee should prepare financial statements for the federal program that includes a schedule of expenditures of federal awards (SEFA) and notes that describe the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings and a corrective action plan. The auditor must:

- Audit the financial statements for the federal program under GAGAS;
- Obtain an understanding of internal control over the federal program and test controls consistent with the requirements of §200.514;
- Perform tests of compliance with laws, regulations, contract and grant provisions that could have a direct and material effect on the federal program; and
- Follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings and report as a current year finding when the auditor concludes that the summary schedule of prior audit findings materially misrepresents that status of any prior finding;
- Report any audit findings consistent with the requirements of §200.516

The auditor's report may be in the form of either combined or separate reports. The report(s) must state that the audit was conducted under Subpart F and include:

- An opinion (or disclaimer) as to whether the financial statements of the federal program present fairly in all material respects in conformity with the stated accounting policies;
- A report on internal control related to the federal program, which shall describe the scope of testing of internal control and the results of the tests;
- A report on compliance which includes an opinion (or disclaimer) as to whether the auditee complied with laws, regulations, contract or grant provisions that could have a direct and material effect on the federal program; and
- A schedule of findings and questioned costs for the federal program that includes a summary of the auditor's results relative to the federal program in a format consistent with §200.515.

The audit is to be completed and the reporting required submitted within the earlier of 30 days after receipt of the auditor's report(s) or nine months after the end of the fiscal year. Unless restricted by law or regulation, the auditee should make the report copies available for public inspection. Auditees and their auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

Other guidance in this section addresses the reporting package for program-specific audits.

Auditee responsibilities The auditee is responsible to:

- Procure or otherwise arrange for the audit required by this part
- Prepare financial statements, including the schedule of expenditure of federal awards
- Follow up and take corrective action on audit findings, including preparing the summary schedule of prior audit findings and a corrective action plan
- Provide the auditor with access to personnel, accounts, books, records, supporting documentation and other information as needed to perform the audit

Auditor selection In procuring audit services, auditees should follow the procurement standards prescribed in the Common Rule requirements. In evaluating proposals, the objectives and scope of the audit should be clear. Factors to be considered in evaluating proposals include the responsiveness to the RFP, relevant experience, availability of staff with professional qualifications and technical abilities, the results of QC reviews and price.

Auditors who prepare an indirect cost rate proposal or cost allocation plan may not also perform the single audit when the entity recovered more than \$1 million in the prior year in indirect costs.

Financial statements The auditee should prepare financial statements reflecting its financial position, results of operations or changes in net assets, and where applicable, cash flows for the fiscal year under audit. The financial statements should be for the same organizational unit and fiscal year as the single audit. However, organization-wide financial statements may include departments, agencies and other organizational units that have separate audits and prepare separate financial statements.

The auditee should also prepare the schedule of expenditure of federal awards (SEFA) for the period covered by the financial statements. At a minimum, the SEFA must:

- List individual federal award programs by federal agency. For clusters of programs, the SEFA should list individual programs within a cluster. For R & D, total federal awards expended must be shown either by individual federal award or by federal agency and major subdivision within the federal agency.
- For pass-through awards, list the name of the pass-through entity and identifying number assigned by the pass-through entity for all awards received as a subrecipient
- Provide the total federal awards expended for each individual program and the CFDA number or other identifying number when the CFDA information is not available
- For pass-through entities, identify the total amount provided to subrecipients from each federal program
- For loan or loan guarantee programs, identify in the notes to the schedule the balances outstanding at the end of the audit period.
- Include notes that describe the significant accounting policies used in preparing the SEFA, and note whether or not the entity elected to use the 10% de minimis cost rate

Audit findings follow-up The auditee is responsible for follow-up and corrective action on all audit findings, and should prepare a summary schedule of prior audit findings, as well as a corrective action plan for current year findings. Both the summary schedule of prior audit findings and the corrective action plan should include the auditor-assigned reference numbers, which must include the year in which the finding originated.

The summary schedule of prior audit findings must report the status of all audit findings included in the prior audits schedule of findings and questioned costs relative to federal awards. The summary should also include audit findings reported in the prior audit's summary schedule of prior audit findings, unless the findings were listed as corrected, are no longer valid, or warranted no further action.

When audit findings were fully corrected, the summary only need list the finding and state that corrective action has been taken. When findings were not corrected (or only partially corrected), the summary should describe the planned corrective action, as well as any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan, the summary schedule should provide an explanation.

When the auditee believes that findings are no longer valid or warrant no further action, the reasons should be described in the summary schedule. A valid reason for considering audit findings as warranting no further action is that all of the following have occurred:

- Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse;
- The federal agency or pass-through entity is not currently following up on the finding; and
- A management decision was not issued.

At the completion of the audit, the auditee should prepare the corrective action plan to address current audit findings. The plan should include the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the finding, the plan shall include an explanation and specific reasons.

Report submission The audit is to be completed and the data collection form (DCF) and reporting package described below are to be submitted within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday or federal holiday, the reporting package is due the following business day.

Unless restricted by federal statutes or regulations, the auditee must make copies available for public inspection, making sure that the reporting package does not include protected personally identifiable information.

The federal audit clearinghouse (FAC) is the repository of record. The DCF must be submitted with the reporting package, and must include a statement that the audit was performed in accordance with this part. The DCF includes information about the auditee, its federal programs, and the results of the audit. It is signed electronically by a senior level representative of the auditee (such as controller, director of finance, chief executive officer or chief financial officer), attesting to the accuracy of the information included in the form, and that the reporting package does not include protected personally identifiable information.

The *reporting package* must include:

- Financial statements and schedule of expenditures of federal awards
- Summary schedule of prior audit findings
- Auditor's reports
- Corrective action plan

One copy of the reporting package must be submitted electronically to the single audit clearinghouse. Upon request, auditors must make available any management letters issued. Auditees must retain a copy of the reporting package for three years.

Federal agency responsibilities

Recipients who expend more than \$50 million annually must have a cognizant agency for audit. Unless OMB makes a specific assignment of a cognizant agency, the designated cognizant agency will be the agency that provides the largest amount of direct funding to the entity. To provide continuity the determination of the predominant amount of direct funding must be based on awards expended in the entity's fiscal years ending in 2014, 2019 and every fifth year thereafter.

The cognizant agency for audit:

- Provides technical audit advice and liaison to auditees and auditors;
- Obtains and conducts QC reviews of selected audits by non-federal auditors and provides the results to other interested organizations;
- Promptly informs other affected federal agencies and law enforcement officials of any direct reporting by the auditee or its auditor of fraud or illegal acts;
- Advises the community of independent auditors of any noteworthy matters related to the quality of audits stemming from quality reviews
- Advises the auditor, and where appropriate, the auditee of any deficiencies found in the audits when corrective action is required by the auditor;
- Coordinates management decisions for findings that affect more than one agency;
- Coordinates the audit work and reporting responsibilities among auditors;
- Coordinates management decisions for cross-cutting audit findings
- Provides advice to auditees on how to handle changes in fiscal years

Oversight agencies for audit are determined (for entities who are not assigned a cognizant agency for audit). The oversight agency provides technical advice to auditors and auditees, and may assume all or some of the other responsibilities of a cognizant agency for audit.

Scope of audit The audit must be conducted in accordance with *Government Auditing Standards*, and cover the entire operations of the auditee. Alternatively, the auditee may elect a series of audits that cover departments, agencies and other organizational units which expended and administered federal awards. The financial statements and SEFA must cover the same fiscal year.

The auditor must report on the financial statements, and whether the SEFA is presented fairly in relation to the financial statements taken as a whole.

In addition to the requirements of GAGAS, auditors must obtain an understanding of internal control over federal awards to enable the auditor to plan the audit to support a low level of control risk for major programs. Auditors must test internal controls over major programs, unless the controls identified are not likely to be effective, in which case significant deficiencies and/or material weaknesses in internal control should be reported. When controls are deemed to be ineffective, auditors must consider the need to extend the tests of compliance.

Auditors must report on internal controls and compliance at the financial statement level as required by GAGAS. The audit must also enable the auditor to report on compliance with laws and regulations, contract and grant provisions that could have a direct and material effect on a major program, and where applicable, refer to the schedule of findings and questioned costs.

The principal compliance requirements applicable to most federal programs are included in the compliance supplement. For the compliance requirements related to federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor must determine the current compliance requirements and modify the audit procedures accordingly. For programs not covered in the compliance supplement, the auditor should follow the compliance supplement's guidance for programs not included in the supplement.

The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.

The auditor must follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings, and report, as a current finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior finding. The follow-up procedures are required whether or not a prior finding relates to a major program in the current year.

The auditor must complete and sign the specified sections of the data collection form.

Audit reports may be combined or separate and may be organized differently from the manner presented in this section. The auditor's reports must state that the audit was conducted in accordance with this part and include the following:

- An opinion (or disclaimer of opinion) on the financial statements (as required under GAAS) and an opinion as to whether the schedule of expenditures of federal awards is presented fairly in relation to the financial statements taken as a whole.
- A report on compliance and internal controls related to the financial statements (as required by GAGAS).
- A report on compliance for each major program and a report on internal controls over major federal award programs.
- A schedule of findings and questioned costs which includes:
 - * a summary of the auditor's results (as described below)
 - * findings related to the financial statements
 - * findings and questioned costs related to major federal award programs (audit findings should be organized by agency/ pass-through entity including reference numbers)

The summary of auditor's results must include:

- Type of report issued (unqualified, qualified, adverse or disclaimer) on the financial statements;
- Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were identified in the audit of the financial statements;
- A statement about whether the audit disclosed any noncompliance that is material to the financial statements
- Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed;
- The type of report issued on compliance for major programs;
- A statement as to whether the audit disclosed any audit findings that are required to be reported;
- An identification of major programs by listing each major program; in the case of a cluster of programs, only the cluster name as presented in the SEFA is required
- The dollar threshold used to distinguish between Type A and Type B programs when a recalculation of the Type A threshold is required for large loan and loan guarantees; and
- A statement as to whether the auditee qualified as a low-risk auditee

Audit findings Auditors must report as audit findings in the schedule of findings and questioned costs:

- Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs
- Material noncompliance with the provisions of federal statutes, regulations or the terms and conditions of federal awards related to a major program
- Known questioned costs in excess of \$25,000 for a major program compliance requirement. (When evaluating the effect of questioned costs on the major program compliance, the auditor must consider *likely* questioned costs.)
- Known questioned costs when likely questioned costs are greater than \$25,000 for a major program requirement.
- Known questioned costs that are in excess of \$25,000 for a program not audited as a major program. The auditor is not required to perform procedures for such a program; however, if the auditor does become aware of questioned costs for a program not audited as a major program and the known questioned costs are greater than \$25,000, the finding must be reported.
- Circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion, unless those circumstances are reported as audit findings
- Known or likely fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding. This does not require the auditor to report information which could compromise investigative or legal proceedings or make an additional reporting when the auditor confirms that the fraud was reported outside the auditors reports under the direct reporting guidance of GAGAS.

- Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings materially misrepresents the status of a prior audit finding.

Audit findings must be presented in sufficient detail and clarity for the auditee to prepare a corrective action plan and take corrective action, and for federal agencies and pass-through entities to arrive at a management decision. Thus findings must include:

- Federal award program and specific federal award identification, including the CFDA title and number, federal award identification number and year, name of the federal agency, and name of any pass-through entity. When information, such as the CFDA title and number, is not available, the auditor must provide the best information available to describe the federal award.
- The criteria, condition, cause and effect.
- Identification of questioned costs and how they were computed.
- Information to provide proper perspective for judging the prevalence and consequences of the finding.
- Identification of whether the finding was a repeat finding in the immediate prior year, and if so any applicable prior year audit finding numbers.
- The auditor's recommendations to prevent future occurrences
- The views of responsible officials.

Each audit finding must include a reference number in the format meeting the requirements of the data collection form (four digit year and three digit finding number, such as 2015-001).

Audit documentation The auditor must retain the working papers and reports for a minimum of three years after issuance of the reports, unless notified to extend the retention period. Audit documentation should be made available upon request to the cognizant or oversight agency or its designee, a federal agency providing funding, or the GAO, as part of a quality review, to resolve audit findings or to carry out oversight responsibilities. Access to documentation includes copying as is reasonable and necessary.

Major program determination The auditor must use a risk-based approach to determine which federal programs are major programs. This approach must include consideration of:

- Current and prior audit experience
- The extent of oversight by federal agencies and pass-through entities, and
- The inherent risk of the federal program

The following process must be applied in major program determination.

Step 1: Identify the larger federal programs, which are labeled Type A programs. Federal programs not labeled as Type A programs must be labeled as Type B programs. The following table summarizes the Type A program thresholds:

Total federal awards expended	Type A threshold
Equal to \$750,000, but less than or equal to \$25 million	\$750,000
Exceeding \$25 million, but less than or equal to \$100 million	Total federal awards expended times .03
Exceeding \$100 million, but less than or equal to \$1 billion	\$3 million
Exceeding \$1 billion, but less than or equal to \$10 billion	Total federal awards expended times .003
Exceeding \$10 billion, but less than or equal to \$20 billion	\$30 million
Exceeding \$20 billion	Total federal awards expended times .0015

The inclusion of large loan and loan guarantee programs should not result in the exclusion of other programs as Type A programs. When a loan or loan guarantee program exceeds four times the largest non-loan program it is considered a large loan program, and the auditor must consider this program as a Type A program and exclude its values in determining other Type A programs. The recalculation of the Type A program is performed after removing the total of all large loan programs. A program is only considered to be a federal program providing loans if the value of the federal awards expended for loans within the program comprises fifty percent or more of the total federal awards expended for the program. A cluster of programs is considered a single program. For purposes of biennial audits, the determination of Type A and Type B programs must be based on the federal awards expended during the two-year period.

Step 2: Identify the Type A programs that are low-risk. The auditor should consider whether any of the following indicate significantly increased risk that would preclude the program from being low-risk:

- The oversight exercised by federal agencies and pass-through entities
- The results of audit follow-up
- Any changes in personnel or systems affecting the program

For a Type A program to be considered low-risk it must have been audited as a major program at least once in the two previous years (or in the case of a biennial

audit, the most recent period), and in the most recent audit period, the program must not have had:

- Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs
- A modified opinion on the program in the auditor's report on major programs
- Known or likely questioned costs that exceed 5% of the total federal awards expended for the program

Notwithstanding the preceding criteria, OMB may approve a federal awarding agency's request that a Type A program may not be considered low-risk for a certain recipient. The federal awarding agency must notify the recipient, and if known, the auditor of OMB's approval at least 180 calendar days prior to the end of the fiscal year to be audited.

Step 3: Identify the Type B programs that are high-risk, using professional judgment and the criteria below. The auditor is not required to identify more high-risk Type B programs than at least one-fourth the number of low-risk Type A programs, as identified in Step 2. Except for known material weaknesses in internal control or material noncompliance, a single criterion would seldom cause a Type B program to be considered high-risk. When identifying which Type B programs to risk assess, the auditor is encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time.

The auditor is not expected to perform risk assessments on relatively small Type B programs; therefore the auditor is only required to perform risk assessments on Type B programs that exceed 25% of the Type A threshold (e.g. with a minimum of \$750,000 threshold, the cutoff for risk assessment of Type B programs is a minimum of \$175,000).

When assessing a Type B program, the auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring in the program that could be material to the federal program. Otherwise, the auditor considers:

- **Current and prior experience** Weaknesses in the control structure over federal programs would indicate higher risk. Consideration should be given to the control environment over federal programs and factors such as the expectation of adherence or lack of adherence to laws and regulations, and the competency and experience of those processing federal transactions.

The existence of multiple control structures may indicate higher risk. When significant parts of a program are carried out by subrecipients, weak monitoring of subrecipients would indicate higher risk. The extent of the

use of data processing systems and the complexity of those systems should be considered. Significant prior audit findings would indicate higher risk. Programs not audited recently as major programs may be of higher risk than programs audited recently.

- **Oversight exercised by federal agencies and pass-through entities** Recent monitoring by federal or other oversight agencies which disclosed no significant problems are indication of low risk. Conversely, significant findings could indicate higher risk. Federal agencies, with the concurrence OMB may identify high risk programs at the auditee level. These programs will be identified in the *Compliance Supplement*.
- **Inherent risk of the program** The very nature of a program is indicative of its inherent risk. Factors such as the complexity of the program, extent to which it contracts for goods or services, significance of staff payroll costs, newness of the program, programs in which significant changes have occurred, the number and dollar amounts of program expenditures must be considered in assessing inherent risk. Type B programs of larger federal awards expended would be of higher risk than programs with substantially lesser federal expenditures.

Step 4: At a minimum, the major programs must include:

- All Type A programs that were not identified as low-risk in Step 2
- All Type B programs identified as high-risk under Step 3 (those Type B programs identified as high-risk that number at least $\frac{1}{4}$ the number of low-risk Type A programs, and
- Such other programs necessary to meet the percentage of coverage requirements below.

Percentage of coverage rule If the auditee meets the criteria to be classified as a low-risk entity, the auditor need only audit the major programs identified in Step 4 and such additional programs with federal awards expended that, in the aggregate, all major programs encompass at least 20% of total federal awards expended. Otherwise, the auditor must meet a 40% coverage requirement.

Documentation of risk The auditor must include in the audit documentation the risk analysis process used in determining the major programs.

When the major program determination was performed and documented in accordance with this part, the auditor's judgment in applying the risk-based approach must be presumed correct, and can only be challenged by a federal agency when there has been clearly improper use of the requirements. However, federal agencies and pass-through entities may provide the auditor with guidance about the risk of a particular federal program, and the audit must consider this guidance in determining major programs in audits not yet completed.

Criteria for a low-risk auditee An auditee that meets all of the following requirements for each of the preceding two audit periods qualifies as a low-risk auditee, eligible for reduced audit coverage:

- Single audits were performed on an annual basis, including submission of the data collection form and reporting package to the FAC on a timely basis. An entity that has biennial audits does not qualify as a low-risk auditee.
- The opinions on the financial statements and on the schedule of expenditures of federal awards were unmodified.
- There were no material weaknesses reported under the requirements of GAGAS.
- There was no going concern paragraph in the auditor's report on the financial statements.
- No Type A federal award had audit findings from any of the following:
 - Material weaknesses in internal control over major programs
 - A modified opinion on compliance for major programs
 - Known or likely questioned costs in excess of 5% of the total federal awards expended

Management decisions The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be provided. Prior to issuing the management decision, the federal agency or pass-through entity may request additional information or documentation from the entity, including a request for auditor assurance related to the documentation as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee. While not required, the federal agency or pass-through entity may issue a management decision on findings related to the financial statements which are required to be reported under GAGAS.

The cognizant agency for audit must be responsible for coordinating a management decision for audit findings that affect the programs of more than one federal agency. Individual federal agencies are responsible for issuing a management decision for findings that relate to federal awards it makes. Similarly, a pass-through entity is responsible for issuing a management decision for audit findings that relate to federal awards it makes to subrecipients.

Management decisions must be issued within six months of acceptance of the audit report by the FAC. The auditee must initiate and proceed with corrective action as rapidly as possible and corrective action should begin no later than upon receipt of the audit report.

Management decisions must include the reference numbers assigned to each finding.

Appendices to the Unified Circular

Appendix I – Full Text of Notice of Funding Opportunity

Appendix II - Contract Provisions for Non-federal Entity Contracts Under Federal Awards

Appendix III – Indirect (F & A) costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)

Appendix IV – Indirect (F & A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

Appendix V – State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans

Appendix VI – Public Assistance Cost Allocation Plans

Appendix VII – States and Local Government and Indian Tribe Indirect Cost Proposals

Appendix VIII – Nonprofit Organizations Exempted from Subpart E – Cost Principles

Appendix IX – Hospital Cost Principles

Appendix X – Data Collection Form

Appendix XI – Compliance Supplement

Chapter 4
The Single Audit Compliance Requirements and Suggested Control Activities

<u>Requirement</u>	<u>Suggested Control Activities</u>
<p>Activities Allowed or Unallowed and Allowable Costs/Cost Principles</p> <p>These requirements are unique to the laws, regulations and contract or grant provisions applicable to the various programs. For listed programs, Part 4 provides the specific requirements. This requirement specifies the activities that can be funded under a specific program.</p> <p>The cost principles (Subpart E) prescribe the cost accounting policies associated with the administration of federal awards by nonprofit organizations, state and local governments (including Indian tribal governments) and educational institutions. These principles contain the selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect cost rates.</p>	<p>Persons responsible for approving program expenditures are aware of the requirements of the OMB Circular and evaluate program charges based on these criteria.</p> <p>A supervisor's review and approval of all invoices that support charges to a federal program. This review should address whether the charge is in accordance with the approved program budget.</p> <p>Utilization of a checklist denoting allowable, unallowable, and possibly unallowable costs by person responsible for approving expenditures charged to federal programs.</p> <p>The entity has prepared a cost allocation plan or indirect cost rate proposal that provides a basis for allocating indirect costs to federal programs.</p> <p>The cost allocation plan or indirect cost rate proposal is supported by documentation that demonstrates that the plan was prepared from accurate financial and reasonable statistical data.</p> <p>The cost allocation plan or indirect cost rate proposal has been submitted to and approved by the entity's cognizant agency, if required.</p> <p>Indirect cost charges included as federal program expenditures are reviewed by supervisory personnel and are determined to be in accordance with the entity's cost allocation plan or indirect cost rate proposal.</p> <p>Utilization of an outside expert to prepare or periodically review the indirect cost allocation plan and or adherence to the plan.</p>

<u>Requirement</u>	<u>Suggested Control Activities</u>
<p style="text-align: center;">Cash management</p> <p>When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.</p> <p>When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.</p> <p>U. S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 <i>et seq.</i>), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).</p> <p>Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 USC 6501 <i>et seq.</i>) and the Indian Self-Determination Act (23 USC 450), interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State non-profit entities on Federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.</p>	<p>All requests for federal funds (advances or reimbursements) are approved by supervisory personnel.</p> <p>If the request is for a reimbursement of expenditures, supporting documentation of these expenditures should accompany the request.</p> <p>If the request is for an advance of funds, the request should be accompanied by support for the amount requested, i.e., cash on hand and projected cash needs based on reliable accounting data.</p> <p>These forms of documentation should be reviewed before requests are approved and signed.</p> <p>Maintaining a cash log showing expenditures and cash balances for federal award programs.</p> <p>Supervisory personnel periodically inspect files of unprocessed invoices to ensure that vendors are paid on a timely basis.</p> <p>Supervisory personnel periodically review cash balances of federal funds to ensure that cash balances are not excessive as compared to projected cash needs.</p>

<u>Requirement</u>	<u>Suggested Control Activities</u>
<p data-bbox="430 262 544 294" style="text-align: center;">Eligibility</p> <p data-bbox="235 325 738 504">Specific requirements for eligibility are unique to each program, and thus, are located in the laws, regulations and contract/grant provisions which pertain to the individual programs. For programs included in the supplement, specific eligibility requirements are presented in Part 4.</p>	<p data-bbox="820 262 1307 441" style="text-align: center;">Prescribed forms are used to document eligibility. Files are maintained on each applicant that contains the required form and supporting documentation for information recorded on the form.</p> <p data-bbox="868 472 1258 682" style="text-align: center;">Someone other than the person responsible for making eligibility determinations, reviews application forms and support and approves eligibility determinations before the applicant is enrolled in the program.</p>

<u>Requirement</u>	<u>Suggested Control Activities</u>
<p style="text-align: center;">Reporting</p> <p>Standard federal reporting forms should be used (or other authorized forms). These may require financial, performance or special reporting information. Each recipient must report program outlays and income on a cash or accrual basis as prescribed by the awarding agency. If the awarding agency requires accrual basis information and the recipient normally maintains its records on another basis, the recipient is not required to change its method to accrual, but may develop the accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic inputs in lieu of the prescribed formats.</p> <p>Recipients must submit performance reports at least annually, but not more frequently than quarterly. Performance reports generally contain brief information on each of the following:</p> <ul style="list-style-type: none"> * A comparison of actual performance with the goals and objectives established for the period * The reasons why goals were not met, if applicable * Other information, including analysis and explanation of cost overruns or high unit costs <p>Entities may be required to complete other reports which may be used by the funding agency for such purposes as allocating program funding. Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:</p> <ul style="list-style-type: none"> * Have a direct and material effect on the program * Are capable of evaluation against objective criteria stated in the laws, regulations, contract or grant agreements pertaining to the program 	<p>Employees responsible for preparing federal financial reports are provided a timetable with dates the reports are due.</p> <p>Reports are prepared from reliable accounting data.</p> <p>Supervisory personnel (someone other than preparer) is responsible for reviewing and signing reports. This review should include a determination that the report is filed on a timely basis and that the information in the report is supported by the accounting records.</p> <p>Periodic documented reconciliations of federal financial reports to the general ledger.</p>

<u>Requirement</u>	<u>Suggested Control Activities</u>
<p style="text-align: center;">Subrecipient monitoring</p> <p>A pass-through (primary) recipient is responsible for:</p> <ul style="list-style-type: none"> * Identifying to the subrecipient the award information (CFDA number, award name, agency name) * Monitoring the subrecipient’s activities to provide reasonable assurance that awards are administered in accordance with the applicable requirements * Ensuring that any required audits are performed and requiring prompt corrective action, where appropriate * Evaluating the impact of subrecipient activities on its (the primary recipient’s) ability to comply with the applicable regulations <p>The size of the awards, percentage of total program’s funds awarded to subrecipients, and the complexity of the program’s requirements may influence the extent of monitoring procedures.</p> <p>“Monitoring” may take a number of forms, e.g., reviewing reports submitted by subrecipients, performing site visits to review financial and performance data and observe operations, arranging for “limited scope” audits of aspects of subrecipient activities (such as eligibility determinations), reviewing single audit reports provided, and evaluating audit findings and corrective action plans.</p>	<p>If the subrecipient will expend more than \$750,000 in federal funds during a fiscal year, the subcontract between the primary recipient and the subrecipient requires the subrecipient to obtain a timely audit in accordance with Subpart F.</p> <p>The subcontract requires the subrecipient to provide the primary recipient with a copy of the audit report and the subrecipient’s response to any audit findings.</p> <p>The primary recipient follows up on the audit findings to determine whether the subrecipient has satisfactorily resolved audit findings. This follow up should be performed on a timely basis.</p> <p>If monitoring is required by the program legislation, the primary recipient establishes and follows a schedule of timely monitoring.</p> <p>Procedures established for monitors are documented and followed during the conduct of monitoring visits.</p> <p>Supervisory personnel review monitors reports and follow up on any findings.</p>

<u>Requirement</u>	<u>Suggested Control Activities</u>
<p style="text-align: center;">Special tests and provisions</p> <p>As implied by the title, special tests and provisions are unique to each program, and are found in the laws, regulations, contract and award provisions applicable to the awards. For programs listed in the supplement, Part 4 contains those provisions, the related audit objectives and suggested procedures. For programs not listed, the auditor should review the applicable contract and grant agreements and referenced laws and regulations to determine the compliance requirements and develop the audit objectives and procedures.</p> <p>The auditor should also inquire of the entity to assist in identification of the special tests and provisions that apply.</p> <p>The OMB has indicated that some of the earlier requirements eliminated by the Unified Circular may “reappear” under Special Tests and Provisions. These may include:</p> <ul style="list-style-type: none"> • Davis-Bacon Act • Equipment and Real Property • Real Property Acquisition and Relocation Assistance • Matching, level of effort and earmarking • Procurement, suspension and debarment <p>As special tests and provisions, the Compliance Supplement should provide specific guidance on testing these requirements. The auditor should obtain and understanding, consider the effectiveness of, and test internal controls related to any special tests and provisions applicable to a major program.</p>	<p>Persons responsible for administering federal awards have copies of and are aware of the special provisions contained in the Compliance Supplement for each federal program.</p> <p style="text-align: center;">Grant agreements are reviewed for special provisions and procedures are documented that address how special compliance provisions will be satisfied.</p>