

**Preliminary Policy on Audits and Audit Review**

**Reference:**

Workforce Innovation and Opportunity Act, Section 184; Workforce Innovation and Opportunity Act – Notice of Proposed Rulemaking, 20 CFR 667.200, 667.500, 667.510; 29 CFR 97.26 and 29 CFR 95.26; Single Audit Act Amendments of 1996; OMB Circular A-133; Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Final Rule; Standards for Internal Control in the Federal Government (Green Book); Federal Register/Vol. 68, No. 124/Friday, June 27, 2003, P. 38401-38402.

**Background:**

All entities that received funds issued on or after December 26, 2014, are bound by the audit requirements of 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Final Rule (Uniform Guidance).

All governmental and non-profit organizations that received funds issued prior to December 26, 2014, and which will have funding actions, allotments, or incremental funding actions taking place after December 26, 2014, are bound by the audit requirements of the Uniform Guidance for the new funds only.<sup>1</sup>

All governmental and non-profit organizations that received funds issued prior to December 26, 2014, and which will not have additional funding actions taking place after December 26, 2014, may continue to follow the terms and conditions as outlined in their award documents, including the audit requirements of OMB Circular A-133 (A-133).<sup>2</sup>

**Action:**

This policy takes effect immediately.

**Policy:**

To ensure that all Federal funds are expended in accordance with applicable laws and regulations, audit standards have been established.

**Definitions**

“Non-Federal entity” means a State, local government, Indian tribe, institution of higher education, or non-profit organization that carries out a federal award as a recipient or subrecipient.<sup>3</sup> The City of Omaha, City of Lincoln, State of Nebraska, Heartland Workforce Solutions (HWS), and Goodwill Industries, as subrecipients of WIOA funds, are considered “non-Federal entities.”

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<sup>1</sup> <http://doleta.gov/grants/UniformGuidance.cfm>

<sup>2</sup> Id.

<sup>3</sup> 2 CFR § 200.69

“Pass-through entity” means a non-Federal entity that provides a subaward to a subrecipient to carry out part of a federal program.<sup>4</sup> If the non-Federal entity for the local area provides a subaward to a subrecipient to carry out part of a federal program, the subrecipient is considered a “pass-through entity.” The State of Nebraska, City of Omaha, and HWS are pass-through entities.

“Subrecipient” means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a federal program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.<sup>5</sup> HWS, as a non-Federal entity that receives a subaward from the City of Omaha, is a subrecipient. Goodwill Industries, as a non-Federal entity that receives a subaward from HWS, is also a subrecipient.

“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.<sup>6</sup>

“Contractor” means an entity that receives a legal instrument (i.e., contract) by which a non-Federal entity purchases property or services needed to carry out the project or program under a federal award. The term as used in this part 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.<sup>7</sup>

### **Subrecipient/Contractor Determination**

The non-Federal entity may concurrently receive federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with federal awarding agencies and pass-through entities. Payments received for goods or services provided as a contractor are not federal awards.<sup>8</sup> Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. The federal awarding agency may supply and require recipients to comply with additional guidance to support these determinations provided such guidance does not conflict with this section.<sup>9</sup>

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<sup>4</sup> 2 CFR § 200.74, A-133 § \_\_\_.105

<sup>5</sup> 2 CFR § 200.93

<sup>6</sup> 2 CFR § 200.92

<sup>7</sup> 2 CFR § 200.22 and 200.23

<sup>8</sup> 2 CFR § 200.330, 2 CFR § 200.501(f)

<sup>9</sup> 2 CFR § 200.330

<b>Characteristics which support the classification of the non-Federal entity as a subrecipient include when the non-Federal entity:</b>	<b>Characteristics indicative of a procurement relationship between the non-Federal entity and a contractor are when the non-Federal entity receiving the federal funds:</b>
Determines who is eligible to receive what federal assistance	Provides the goods and services within normal business operations
Has its performance measured in relation to whether objectives of a federal program were met	Provides similar goods or services to many different purchasers
Has responsibility for programmatic decision making	Normally operates in a competitive environment
Is responsible for adherence to applicable federal program requirements specified in the federal award	Provides goods or services that are ancillary to the operation of the federal program
In accordance with its agreement, uses the federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity. <sup>10</sup>	Is not subject to compliance requirements of the federal program as a result of the agreement, though similar requirements may apply for other reasons. <sup>11</sup>

In determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.<sup>12</sup>

## General

### Threshold and Time Frame

Each non-Federal entity that received a grant prior to December 26, 2014 and expended a total amount of federal awards equal to or in excess \$500,000 in any fiscal year shall have either a single audit or a program-specific audit made for such fiscal year in accordance with this policy unless they qualify for the limited exceptions under the Single Audit Act Amendments.<sup>13</sup> The exceptions included under OMB Circular A-133 are:

1. A state or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits biennially. Audits conducted biennially shall cover both years within the biennial period; and

<sup>10</sup> Uniform Guidance § 200.330(a)

<sup>11</sup> Uniform Guidance § 200.330(b)

<sup>12</sup> Uniform Guidance § 200.330(c)

<sup>13</sup> OMB Circular A-133 § \_\_\_\_,200(a)

- Any non-profit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits biennially. Audits conducted biennially shall cover both years within the biennial period.<sup>14</sup>

Similarly, each non-Federal entity that received a grant on or after December 26, 2014, and expended a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year must have either a single audit or a program-specific audit made for such fiscal year in accordance with this policy unless they qualify for the limited exceptions under the Single Audit Act Amendments.<sup>15</sup> These exceptions include those in A-133, but adds to the first set of exceptions that an Indian tribe that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits biennially.<sup>16</sup>

In most cases, the auditee's compliance responsibility for vendors or contractors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements in the case of grants that fall under A-133, or with federal statutes, regulations, and the terms and conditions of federal awards for grants under the Uniform Guidance.<sup>17</sup> State and local governments should use their own procedures to ensure that the contractor has complied with laws and regulations affecting the expenditure of federal funds.

#### Government Auditing Standards (Green Book)

The audits shall be made by an independent public accountant in accordance with generally accepted government auditing standards (GAGAS) covering financial audits.<sup>18</sup>

#### **Auditor Selection**

In arranging for audit services, the procurement requirements of state policy shall be followed.<sup>19</sup>

In requesting proposals for audit services for grants received **before December 26, 2014**, the objectives and scope of the audit must be made clear. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price.<sup>20</sup>

In requesting proposals for audit services for grants received **on or after December 26, 2014**, the objectives and scope of the audit must be made clear, and the non-Federal entity must request a copy of the audit organization's peer review report which the auditor is required to report under GAGAS. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price.<sup>21</sup>

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<sup>14</sup> OMB Circular A-133 § \_\_\_.220

<sup>15</sup> OMB Uniform Guidance § 200.501(a)

<sup>16</sup> OMB Uniform Guidance § 200.504(a)

<sup>17</sup> OMB Uniform Guidance § 200.501(g)

<sup>18</sup> Green Book, OMB Circular A-133 § \_\_\_.500(a), OMB Uniform Guidance § 200.514(a)

<sup>19</sup> OMB Uniform Guidance § 200.317 and § 200.509(a)

<sup>20</sup> OMB Circular A-133 § \_\_\_.305(a)

<sup>21</sup> OMB Uniform Guidance § 200.509(a)

In any case, an auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.<sup>22</sup>

Whenever possible, the auditee must make positive efforts to utilize small businesses, minority-owned firms, women's business enterprises, and (for grants that fall under the Uniform Guidance) labor surplus area firms, or the Federal Acquisition Regulation (FAR) (48 CFR), as applicable.<sup>23</sup>

### **Auditor Responsibilities**

Audits must be conducted in accordance with GAGAS.<sup>24</sup> The auditor shall:

- Determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;<sup>25</sup>
- Determine whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole;<sup>26</sup>
- With respect to internal controls pertaining to the compliance requirements for each major program - obtain an understanding of such internal controls, assess control risk, and perform tests of controls unless the controls are deemed to be ineffective;<sup>27</sup> and
- Determine whether the non-Federal entity has complied with laws, regulations, and the provisions of contracts or grant agreements in the case of grants that fall under A-133, or with federal statutes, regulations, and the terms and conditions of federal awards for grants under the Uniform Guidance, that may have a direct and material effect on each of its major program.<sup>28</sup>

### **Pass-Through Entities Responsibilities**

In terms of grants received **before December 26, 2014**, each pass-through entity shall:

- Provide subrecipients with the program names (and any identifying numbers) from which federal assistance is derived, and the federal requirements which govern the use of awards;
- Monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings pertaining to federal awards provided to the subrecipient; and
- Require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary.<sup>29</sup>

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<sup>22</sup> OMB Circular A-133 § \_\_\_.305(b), OMB Uniform Guidance § 200.509(b)

<sup>23</sup> OMB Circular § \_\_\_.305(a), OMB Uniform Guidance § 200.321 and § 200.509(a)

<sup>24</sup> OMB Circular A-133 § \_\_\_.500(a), OMB Uniform Guidance § 200.514(a)

<sup>25</sup> OMB Circular A-133 § \_\_\_.500(b), OMB Uniform Guidance § 200.514(b)

<sup>26</sup> OMB Circular A-133 § \_\_\_.500(b), OMB Uniform Guidance § 200.514(b)

<sup>27</sup> OMB Circular A-133 § \_\_\_.500(c), OMB Uniform Guidance § 200.514(c)

<sup>28</sup> OMB Circular A-133 § \_\_\_.500(d)(1), OMB Uniform Guidance § 200.514(d)(1)

<sup>29</sup> OMB Circular A-133 § \_\_\_.400 (d)

In terms of grants received **on or after December 26, 2014**, all pass-through entities must:

- Ensure a subaward is clearly identified to the subrecipient and provide the subrecipient with the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards;<sup>30</sup>
- 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. This evaluation may include the results of previous audits including whether the subrecipient receives a Single Audit in accordance the audit requirements contained in the Uniform Guidance Subpart F, and the extent to which the same or similar subaward has been audited as a major program;<sup>31</sup>
- Consider imposing specific subaward conditions upon a subrecipient if appropriate;<sup>32</sup>
- Monitor the activities of the subrecipient as necessary to ensure the subaward is used for authorized purposes, and in compliance with federal statutes, regulations, and the terms and conditions of the subaward, and that subaward performance goals are achieved; this monitoring must include:
  - Reviewing financial and performance reports required by the pass-through entity;
  - Following up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award; and
  - Issuing a management decision of the audit findings pertaining to federal awards the pass-through entity makes to subrecipients, and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.<sup>33</sup>
- Verify that the subrecipient is audited as required by the Uniform Guidance Subpart F when it is expected that the subrecipient's federal awards expended during the respective fiscal year equaled or exceeded the \$750,000 threshold set forth in §200.501 Audit requirements;<sup>34</sup>
- Consider whether the results of the subrecipient's audits indicate conditions that necessitate adjustment to the pass-through entity's own records;<sup>35</sup> and
- Consider taking enforcement action against noncompliant subrecipients.<sup>36</sup>

### **Auditor's Report**

The auditor's report shall state that the audit was conducted in accordance with A-133 or the Uniform Guidance, whichever is applicable, and include the following:

- An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.<sup>37</sup>
- A report on internal control over the financial reporting and compliance with laws, regulations, and the provisions of contracts or grant agreements in the case of grants that fall under A-133, or with federal statutes, regulations, and the terms and conditions of the federal award

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<sup>30</sup> OMB Uniform Guidance § 200.331(a)

<sup>31</sup> OMB Uniform Guidance § 200.331(b)

<sup>32</sup> OMB Uniform Guidance § 200.331(c)

<sup>33</sup> OMB Circular A-133 § \_\_\_.105, OMB Uniform Guidance § 200.66, 200.331(d), 200.521(c)

<sup>34</sup> OMB Uniform Guidance § 200.331(f)

<sup>35</sup> OMB Uniform Guidance § 200.331(g)

<sup>36</sup> OMB Uniform Guidance § 200.331(f)

<sup>37</sup> OMB Circular A-133 § \_\_\_.505(a), OMB Uniform Guidance § 200.515(a)

for grants that fall under the Uniform Guidance, noncompliance with which could have a material effect on financial statements.<sup>38</sup>

- For a grant that falls under the Uniform Guidance, a report on compliance for each major program and report and internal control over compliance.<sup>39</sup>
- For a grant that falls under A-133, a report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements.<sup>40</sup>
- A summary of the auditor's results which shall include:<sup>41</sup>
  - The type of report the auditor issued on:
    - financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) for grants under A-133;<sup>42</sup> or
    - whether the financial statements audited were prepared in accordance with generally acceptable accounting principles (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) for grants under the Uniform Guidance.<sup>43</sup>
  - Where applicable:
    - A statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses for grants under A-133;<sup>44</sup> or
    - A statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements for grants under the Uniform Guidance.<sup>45</sup>
  - A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee.<sup>46</sup>
  - Where applicable:
    - A statement that reportable conditions in internal control were disclosed by the audit and whether any such conditions were material weaknesses for grants under A-133;<sup>47</sup> or
    - A statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit for grants under the Uniform Guidance.<sup>48</sup>
  - The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).<sup>49</sup>
  - A statement as to whether the audit disclosed any audit findings which the auditor is required to report as Audit Findings.<sup>50</sup>

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<sup>38</sup> OMB Circular A-133, OMB Uniform Guidance § 200.515(b)

<sup>39</sup> OMB Uniform Guidance § 200.515(c)

<sup>40</sup> OMB Circular A-133 § \_\_.505(c)

<sup>41</sup> OMB Uniform Guidance § 200.515(d)

<sup>42</sup> OMB Circular A-133 § \_\_.505(d)(1)(i)

<sup>43</sup> OMB Uniform Guidance § 200.515(d)(1)(i)

<sup>44</sup> OMB Circular A-133 § \_\_.505(d)(1)(1)(ii)

<sup>45</sup> OMB Uniform Guidance § 200.515(d)(1)(ii)

<sup>46</sup> OMB Circular A-133 § \_\_.505(d)(1)(iii), OMB Uniform Guidance § 200.515(d)(1)(iii)

<sup>47</sup> OMB Circular A-133 § \_\_.505(d)(1)(iv)

<sup>48</sup> OMB Uniform Guidance § 200.515(d)(1)(iv)

<sup>49</sup> OMB Circular A-133 § \_\_.505(d)(1)(v), OMB Uniform Guidance § 200.515(d)(1)(v)

<sup>50</sup> OMB Circular A-133 § \_\_.505(d)(1)(vi), OMB Uniform Guidance § 200.515(d)(1)(vi)

- An identification of major programs;<sup>51</sup> the Uniform Guidance adds, “by listing each individual major program; however in the case of a cluster of programs only the cluster name as shown on the Schedule of Expenditures of federal awards is required.”<sup>52</sup>
- The dollar threshold used to distinguish between Type A and Type B programs.<sup>53</sup>
- A statement as to whether the auditee qualified as a low-risk auditee.<sup>54</sup>
- Findings relating to the financial statements which are required to be reported in accordance with GAGAS.<sup>55</sup>
- Findings and questioned costs for federal awards which shall include audit findings:
  - Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) which relate to the same issue should be presented as a single audit finding.
  - Audit findings which relate to both the financial statements and federal awards should be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form with a reference to a detailed reporting in the other section of the schedule.<sup>56</sup>

### **Submission of Audit Reports**

The audit [which includes funds awarded by the Nebraska Department of Labor] shall be completed and the data collection form and reporting package as identified in OMB Circular A-133 or the Uniform Guidance, shall be submitted within the earlier of 30 days after receipt of the auditor’s report(s), or nine months after the end of the audit period (unless a longer period is agreed to in advance by the cognizant or oversight agency for grants under A-133, or unless a different period is specified in a program specific audit guide for grants under the Uniform Guidance).<sup>57</sup> If the due date falls on a Saturday, Sunday, or federal holiday, the reporting package for a grant under the Uniform Guidance is due the next business day.<sup>58</sup>

Submit to the federal clearinghouse designated by OMB and to:

Office of Finance  
Nebraska Department of Labor  
550 South 16<sup>th</sup>  
PO Box 94600  
Lincoln, NE 68509

The link to the federal clearinghouse currently designated by OMB is:  
<https://harvester.census.gov/facweb/default.aspx/>.

Unless restricted by law or regulation, the auditee shall make copies available for public inspection.<sup>59</sup>

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<sup>51</sup> OMB Circular A-133 § \_\_\_.505(d)(1)(vii)

<sup>52</sup> OMB Uniform Guidance § 200.515(d)(1)(vii)

<sup>53</sup> OMB Circular A-133 § \_\_\_.505(d)(1)(viii), OMB Uniform Guidance § 200.515(d)(1)(viii)

<sup>54</sup> OMB Circular A-133 § \_\_\_.505(d)(1)(ix), OMB Uniform Guidance § 200.515(d)(1)(ix)

<sup>55</sup> OMB Circular A-133 § \_\_\_.505(d)(2), OMB Uniform Guidance § 200.515(d)(2)

<sup>56</sup> OMB Circular A-133 § \_\_\_.505(d)(3), OMB Uniform Guidance § 200.515(d)(3)

<sup>57</sup> OMB Circular § \_\_\_.235(c), OMB Uniform Guidance § 200.512(a)(1), 200.507

<sup>58</sup> OMB Uniform Guidance § 200.512(a)(1)

<sup>59</sup> OMB Uniform Guidance § 200.515(a)(2)



## **Retention of Records**

Auditees shall keep one copy of the data collection form and one copy of the reporting package on file for three (3) years from the date of submission to the federal clearinghouse. Pass-through entities shall keep subrecipients' submissions on file for three (3) years from date of receipt,<sup>60</sup> and the Uniform Guidance adds that auditees must not impose any other record retention requirements with some exceptions, including in the case any litigation, claim, or audit is started before the expiration of the three-year period.<sup>61</sup>

An auditor must retain audit documentation and reports (referred to as "working papers" by A-133) for a minimum of three (3) years after the date of issuance of the report(s) to the auditee, unless the auditor is notified in writing by the cognizant or oversight agency for audit, cognizant agency for indirect costs, or pass-through entity to extend the retention period. When the auditor is aware that the federal agency, pass-through entity, or auditee is contesting an audit finding, the auditor must contact the contesting parties for guidance prior to destruction of the audit documentation and reports.<sup>62</sup>

Regulations applicable to A-133 provide that records must be retained beyond the prescribed period if any litigation or audit has begun, or if a claim is instituted involving the grant or agreement covered by the records. In these instances, the records must be retained until resolution of the litigation, audit, or claim or until the end of the regular three-year record retention period, whichever is later.<sup>63</sup>

Audit documentation (or working papers) must be made available upon request to the cognizant or oversight agency for audit or its designee, cognizant agency for indirect cost, a federal agency, or the Government Accountability Office at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of the Uniform Guidance.<sup>64</sup>

## **Cost of Audits**

### **Allowable Costs**

#### *Under A-133*

Unless prohibited by law, the cost of audits are allowable charges to federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with the provisions of applicable OMB cost principles circulars, the FAR (48 CFR parts 30 and 31), or other applicable cost principles or regulations.<sup>65</sup>

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<sup>60</sup> OMB Circular A-133 § \_\_\_.315(b)(g), OMB Uniform Guidance § 200.512(f)

<sup>61</sup> OMB Uniform Guidance § 200.333

<sup>62</sup> OMB Circular § \_\_\_.515(a), OMB Uniform Guidance § 200.517(a)

<sup>63</sup> 29 CFR 97.42(b)(2) and 29 CFR 95.53(b)(1)

<sup>64</sup> OMB Circular § \_\_\_.515(b), OMB Uniform Guidance § 200.517(b)

<sup>65</sup> OMB Circular § \_\_\_.230(a)

### *Under the Uniform Guidance*

A reasonably proportionate share of costs of audits required by, and performed in accordance with, the Single Audit Act as amended, as implemented by requirements of the Uniform Guidance, are allowable audit costs.<sup>66</sup>

The costs of a financial statement audit of a non-Federal entity that does not currently have a federal award may be included in the indirect cost pool for a cost allocation plan or indirect costs proposal.<sup>67</sup>

Pass-through entities may charge federal awards for the cost of agreed-upon-procedures engagements to monitor subrecipients who are exempted from the requirements of Single Audit Act and Subpart F of the Uniform Guidance only if the agreed-upon-procedures engagements are:

- Conducted in accordance with GAGAS attestations and standards;
- Paid for and arranged by the pass-through entity; and
- Limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting.<sup>68</sup>

### Unallowable Costs

A non-Federal entity is prohibited from charging to any federal award more than a reasonably proportionate share of the cost of any such audit. The percentage of the cost of audits charged to federal awards shall generally not exceed the ratio of total federal awards expended by such non-Federal entity during the applicable fiscal year or years, to such non-Federal entity's total expenditures during such fiscal year or years. However, if there is documentation demonstrating a higher actual cost of auditing the federal awards portion, then a greater percentage may be charged, as appropriate.<sup>69</sup>

### *Under A-133*

The cost of auditing a non-Federal entity which has federal awards expended of less than \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) per year is unallowable. However, a pass-through entity may charge for the cost of limited scope audits to monitor its subrecipients provided the subrecipient does not have a single audit.<sup>70</sup>

### *Under the Uniform Guidance*

Any costs when audits required by the Single Audit Act and Subpart F of the Uniform Guidance have not been conducted or have been conducted but not in accordance with the Single Audit Act and Subpart F are not allowable audit costs. Additionally, any costs of auditing a non-Federal entity that is exempted from having an audit conducted under the Single Audit Act and Subpart F because its expenditures under federal awards are less than, \$750,000 for grants awarded (or

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<sup>66</sup> OMB Uniform Guidance § 200.425(a)

<sup>67</sup> OMB Uniform Guidance § 200.425(b)

<sup>68</sup> OMB Uniform Guidance § 200.425(c)

<sup>69</sup> 31 USC § 7505

<sup>70</sup> <sup>70</sup> OMB Circular § \_\_\_.230(b)

\$500,000 for grants awarded prior to December 26, 2014) during the non-Federal entity's fiscal year are not allowable audit costs.<sup>71</sup>

**Disclaimer:**

This policy is based on NDOL's reading of the statute along with the Notice of Proposed Rulemaking released by USDOL. This policy may be subject to change as additional federal regulations and TEGLs are released. This policy is not intended to be permanent and should be viewed as a placeholder until final federal regulations are released in early 2016.

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<sup>71</sup> OMB Uniform Guidance § 200.425(a)(1) and (2)