



INDIANA
WORKFORCE
DEVELOPMENT

TO: Workforce Investment Board Chairperson
Workforce Investment Board Director
Regional Workforce Board Chairpersons
Regional Operators
Regional Coordinators

FROM: Andrew J. Penca 
Commissioner

THROUGH: Scott B. Sanders 
Chief Financial Officer

DATE: July 9, 2007

SUBJECT: DWD Policy 2007-02
Grantee and Grantee Sub-Recipient Audit Requirements

Purpose: To identify the specific actions DWD requires from each of its grant recipients to ensure that they are meeting their audit and sub-recipient audit oversight responsibilities as dictated by OMB Circular A-133 and Indiana Code 5-11-1-9.

Rescission: DWD Policy 2004-42, dated May 31, 2005

Content: *Grantee Entity Annual Report* (Form E-1) Responsibilities

All non-governmental organizations are required by Indiana Code 5-11-1-4 to file an *Entity Annual Report* (Form E-1) with the Indiana State Board of Accounts (SBA) within thirty (30) days of the end of the Grantee's fiscal year.

The Indiana Department of Workforce Development (DWD) requires that a copy of the Form E-1 be submitted to DWD's Oversight Division within thirty (30) days of the end of the Grantee's fiscal year. The Grantee is also required to provide DWD's Oversight Division the *Letter of Determination* from the SBA.

Grantee Audit

All organizations receiving Federal or State financial assistance as a pass through from DWD are subject to the Federal audit requirements of OMB Circular A-133 and/or the State audit requirements of Indiana Code 5-11-1-9.

All DWD grantees are required to submit a copy of their auditor's report to DWD's Oversight Division within the earlier of thirty (30) days after the receipt of the auditor's report, or nine (9) months after the end of the audit period.

If the auditor's report notes that other matters involving the internal control over financial reporting and its operation had been reported to management in a separate letter, a copy of that letter must accompany the auditor's report.

The SBA may waive the State audit requirements of Indiana Code 5-11-1-9. If the audit requirements are waived, a copy of the documentation waiving the audit must be submitted to the DWD's Oversight Division within thirty (30) days of receiving the waiver.

Grantee Sub-Recipient Audit Oversight

Grantees that make sub-awards utilizing the DWD funds are required to ensure that their sub-recipients have satisfied the audit requirements of OMB Circular A- 133 and Indiana Code 5-11-1-9.

All DWD grantees are required to submit a list of their sub-recipients to DWD's Oversight Division within thirty (30) days of the end of their fiscal year.

The list must include the following information on each sub-recipient:

- Name and address
- Audit period
- Total amount expended in Federal funds from all sources
- Total amount expended in funds from all other public fund sources
- Total amount of all expenditures
- Type of sub-recipient (not-for-profit, for profit, School Corporation, etc.)

A Grant Recipient, as pass through entity, is required to obtain an audit on each of its sub-recipients, perform appropriate audit resolution on each of its sub-recipient audits, and notify DWD's Oversight Division within thirty (30) days of completing the resolution on each of its sub-recipient audits.

If no sub-awards were made, then DWD's Oversight Division must be notified in writing within thirty (30) days of the end of the Grantee's fiscal year that there were no sub-awards.

Submitting Documentation

Documentation may be submitted by one of three (3) methods:

- It may be submitted digitally by attaching it to an e-mail and forwarding it to driggle@dwd.in.gov;
- It may be submitted by fax to 317.233.6128. It should be directed to the attention of the Resolution Specialist in the Oversight Division; or,
- It may be submitted by regular mail addressed to:

Oversight Division
Indiana Department of Workforce Development
10 North Senate Avenue, Room SE308
Indianapolis IN 46204-2277

Internet Links to Applicable Authorities.

- OMB Circular A-133 <http://www.whitehouse.gov/omb/circulars/a133/a133.pdf>
- Indiana Code 5-11-1 <http://www.in.gov/legislative/ic/code/title5/ar11/ch1.html>
- Indiana State Board of Accounts "*Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*"
<http://www.in.gov/sboa/publications/guidelines/entities/NFPmanual.pdf>
- Sub-Recipient Tracking Form
http://www.in.gov/dwd/partners/docs/Subrecipient_Audit_Tracking_Form.xls

Questions or Comments:

Any questions or comments may be directed to the Oversight Resolution Specialist at 317.233.6082 or driggle@dwd.in.gov

Ownership: Oversight Division
Indiana Department of Workforce Development
10 North Senate Avenue, Room SE308
Indianapolis IN 46204-2277
317.232.1725

Effective Date: Immediately

Action: Grant Recipients should comply with the direction/action as outlined in this communication and share this communication with relevant staff person(s).

Review Date: June 1, 2009

Circular No. A-133

Revised to show changes published in the *Federal Register* June 27, 2003
Audits of States, Local Governments, and Non-Profit Organizations

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audits of States, Local Governments, and Non-Profit Organizations

1. Purpose. This Circular is issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.

2. Authority. Circular A-133 is issued under the authority of sections 503, 1111, and 7501 *et seq.* of title 31, United States Code, and Executive Orders 8248 and 11541.

3. Rescission and Supersession. This Circular rescinds Circular A-128, "Audits of State and Local Governments," issued April 12, 1985, and supersedes the prior Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions," issued April 22, 1996. For effective dates, see paragraph 10.

4. Policy. Except as provided herein, the standards set forth in this Circular shall be applied by all Federal agencies. If any statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Federal agencies shall apply the provisions of the sections of this Circular to non-Federal entities, whether they are recipients expending Federal awards received directly from Federal awarding agencies, or are subrecipients expending Federal awards received from a pass-through entity (a recipient or another subrecipient).

This Circular does not apply to non-U.S. based entities expending Federal awards received either directly as a recipient or indirectly as a subrecipient.

5. Definitions. The definitions of key terms used in this Circular are contained in §___ .105 in the Attachment to this Circular.

6. Required Action. The specific requirements and responsibilities of Federal agencies and non-Federal entities are set forth in the Attachment to this Circular. Federal agencies making awards to non-Federal entities, either directly or indirectly, shall adopt the language in the Circular in codified regulations as provided in Section 10 (below), unless different provisions are required by Federal statute or are approved by the Office of Management and Budget (OMB).

7. OMB Responsibilities. OMB will review Federal agency regulations and implementation of this Circular, and will provide interpretations of policy requirements and assistance to ensure uniform, effective and efficient implementation.

8. Information Contact. Further information concerning Circular A-133 may be obtained by contacting the Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, telephone (202) 395-3993.

9. Review Date. This Circular will have a policy review three years from the date of issuance.

10. Effective Dates. The standards set forth in §___.400 of the Attachment to this Circular, which apply directly to Federal agencies, shall be effective July 1, 1996, and shall apply to audits of fiscal years beginning after June 30, 1996, except as otherwise specified in §___.400(a).

The standards set forth in this Circular that Federal agencies shall apply to non-Federal entities shall be adopted by Federal agencies in codified regulations not later than 60 days after publication of this final revision in the *Federal Register*, so that they will apply to audits of fiscal years beginning after June 30, 1996, with the exception that §___.305(b) of the Attachment applies to audits of fiscal years beginning after June 30, 1998. The requirements of Circular A-128, although the Circular is rescinded, and the 1990 version of Circular A-133 remain in effect for audits of fiscal years beginning on or before June 30, 1996.

The revisions published in the *Federal Register* June 27, 2003, are effective for fiscal years ending after December 31, 2003, and early implementation is not permitted with the exception of the definition of *oversight agency for audit* which is effective July 28, 2003.

Augustine T. Smythe
Acting Director

Attachment

PART __ --AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

Subpart A--General

Sec.

- __ .100 Purpose.
- __ .105 Definitions.

Subpart B--Audits

- __ .200 Audit requirements.
- __ .205 Basis for determining Federal awards expended.
- __ .210 Subrecipient and vendor determinations.
- __ .215 Relation to other audit requirements.
- __ .220 Frequency of audits.
- __ .225 Sanctions.
- __ .230 Audit costs.
- __ .235 Program-specific audits.

Subpart C--Auditees

- __ .300 Auditee responsibilities.
- __ .305 Auditor selection.
- __ .310 Financial statements.
- __ .315 Audit findings follow-up.
- __ .320 Report submission.

Subpart D--Federal Agencies and Pass-Through Entities

- __ .400 Responsibilities.
- __ .405 Management decision.

Subpart E--Auditors

- __ .500 Scope of audit.
- __ .505 Audit reporting.
- __ .510 Audit findings.
- __ .515 Audit working papers.
- __ .520 Major program determination.
- __ .525 Criteria for Federal program risk.
- __ .530 Criteria for a low-risk auditee.

Appendix A to Part __ - Data Collection Form (Form SF-SAC).

Appendix B to Part __ - Circular A-133 Compliance Supplement.

Subpart A--General
§ __.100 Purpose.

This part sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

§ __.105 Definitions.

Auditee means any non-Federal entity that expends Federal awards which must be audited under this part.

Auditor means an auditor, that 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 non-profit organizations.

Audit finding means deficiencies which the auditor is required by § __.510(a) to report in the schedule of findings and questioned costs.

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

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. "Other clusters" are as defined by the Office of Management and Budget (OMB) in the compliance supplement or as designated by a State for Federal awards the State provides to its subrecipients that meet the definition of a cluster of programs. When designating an "other cluster," a State shall identify the Federal awards included in the cluster and advise the subrecipients of compliance requirements applicable to the cluster, consistent with § __.400(d)(1) and § __.400(d)(2), respectively. A cluster of programs shall be considered as one program for determining major programs, as described in § __.520, and, with the exception of R&D as described in § __.200(c), whether a program-specific audit may be elected.

Cognizant agency for audit means the Federal agency designated to carry out the responsibilities described in § __.400(a).

Compliance supplement refers to the Circular A-133 Compliance Supplement, included as Appendix B to Circular A-133, or such documents as OMB or its designee may issue to replace it. This document is available from the Government Printing Office, Superintendent of Documents, Washington, DC 20402-9325.

Corrective action means action taken by the auditee that:

- (1) Corrects identified deficiencies;
- (2) Produces recommended improvements; or
- (3) Demonstrates that audit findings are either invalid or do not warrant auditee action.

Federal agency has the same meaning as the term agency in Section 551(1) of title 5, United States Code.

Federal award means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does

not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract. Contracts to operate Federal Government owned, contractor operated facilities (GOCOs) are excluded from the requirements of this part.

Federal awarding agency means the Federal agency that provides an award directly to the recipient.

Federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in § ____.205 (h) and § ____.205 (i).

Federal program means:

(1) All Federal awards to a non-Federal entity assigned a single number in the CFDA.

(2) When no CFDA number is assigned, all Federal awards from the same agency made for the same purpose should be combined and considered one program.

(3) Notwithstanding paragraphs (1) and (2) of this definition, a cluster of programs. The types of clusters of programs are:

(i) Research and development (R&D);

(ii) Student financial aid (SFA); and

(iii) "Other clusters," as described in the definition of cluster of programs in this section.

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

Generally accepted accounting principles has the meaning specified in generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA).

Indian tribe means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

(1) Effectiveness and efficiency of operations;

(2) Reliability of financial reporting; and

(3) Compliance with applicable laws and regulations.

Internal control pertaining to the compliance requirements for Federal programs (Internal control over Federal programs) means a process--effected by

an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:

- (1) Transactions are properly recorded and accounted for to:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
 - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
 - (ii) Any other laws and regulations that are identified in the compliance supplement; and
- (3) 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.

Local government means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government.

Major program means a Federal program determined by the auditor to be a major program in accordance with § ____.520 or a program identified as a major program by a Federal agency or pass-through entity in accordance with § ____.215(c).

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 as to what corrective action is necessary.

Non-Federal entity means a State, local government, or non-profit organization.

Non-profit organization means:

- (1) any corporation, trust, association, cooperative, or other organization that:
 - (i) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;
 - (ii) Is not organized primarily for profit; and
 - (iii) Uses its net proceeds to maintain, improve, or expand its operations; and
- (2) The term non-profit organization includes non-profit institutions of higher education and hospitals.

OMB means the Executive Office of the President, Office of Management and Budget.

Oversight agency for audit means the Federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency for audit. When there is no direct funding, the Federal agency with the predominant indirect funding shall assume the oversight responsibilities. The duties of the oversight agency for audit are described in § __.400(b).

Effective July 28, 2003, the following is added to this definition:
A Federal agency with oversight for an auditee may reassign oversight to another Federal agency which provides substantial funding and agrees to be the oversight agency for audit. Within 30 days after any reassignment, both the old and the new oversight agency for audit shall notify the auditee, and, if known, the auditor of the reassignment."

Pass-through entity means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

Program-specific audit means an audit of one Federal program as provided for in § __.200(c) and § __.235.

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

(1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;

(2) Where the costs, at the time of the audit, are not supported by adequate documentation; or

(3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recipient means a non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program.

Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-Federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. 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. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Single audit means an audit which includes both the entity's financial statements and the Federal awards as described in § __.500.

State means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the

Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe as defined in this section.

Student Financial Aid (SFA) includes 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 et seq.) which is administered by the U.S. Department of Education, and similar programs provided by other Federal agencies. It does not include programs which provide fellowships or similar Federal awards to students on a competitive basis, or for specified studies or research.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Guidance on distinguishing between a subrecipient and a vendor is provided in § .210.

Types of compliance requirements refers to the types of compliance requirements listed in the compliance supplement. Examples include: activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, earmarking; and, reporting.

Vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program. Additional guidance on distinguishing between a subrecipient and a vendor is provided in § .210.

Subpart B--Audits

§ .200 Audit requirements.

(a) Audit required. Non-Federal entities that expend \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in § .205.

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

(c) Program-specific audit election. When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with § .235. A program-specific audit may not be elected for R&D 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 that Federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

(d) Exemption when Federal awards expended are less than \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*). Non-Federal

entities that expend less than \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) a year in Federal awards are exempt from Federal audit requirements for that year, except as noted in §____.215(a), but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and General Accounting Office (GAO).

(e) Federally Funded Research and Development Centers (FFRDC). Management of an auditee that owns or operates a FFRDC may elect to treat the FFRDC as a separate entity for purposes of this part.

§____.205 Basis for determining Federal awards expended.

(a) 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, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, 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 food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the fiscal year;
plus

(2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus

(3) Any interest subsidy, cash, or administrative cost allowance received.

(c) Loan and loan guarantees (loans) at institutions of higher education. When loans are made to students of an institution of higher education but the institution does not make the loans, then only the value of loans made during the year shall be considered Federal awards expended in that year. The balance of loans for previous years is not included as Federal awards expended because the lender accounts for the prior balances.

(d) Prior loan and loan guarantees (loans). Loans, the proceeds of which were received and expended in prior-years, are not considered Federal awards expended under this part when the laws, regulations, and the provisions of contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

(e) Endowment funds. The cumulative balance of Federal awards for endowment funds which are federally restricted are considered awards expended in each year in which the funds are still restricted.

(f) Free rent. Free rent received by itself is not considered a Federal award expended under this part. However, free rent received as part

of an award to carry out a Federal program shall be included in determining Federal awards expended and subject to audit under this part.

(g) Valuing non-cash assistance. Federal non-cash assistance, such as free rent, food stamps, food commodities, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency.

(h) Medicare. Medicare payments to a non-Federal entity for providing patient care services to Medicare eligible individuals are not considered Federal awards expended under this part.

(i) Medicaid. Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended under this part unless a State requires the funds to be treated as Federal awards expended because reimbursement is on a cost-reimbursement basis.

(j) Certain loans provided by the National Credit Union Administration. For purposes of this part, loans made from the National Credit Union Share Insurance Fund and the Central Liquidity Facility that are funded by contributions from insured institutions are not considered Federal awards expended.

§ __.210 Subrecipient and vendor determinations.

(a) General. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

- (1) Determines who is eligible to receive what Federal financial assistance;
- (2) Has its performance measured against whether the objectives of the Federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

(c) Payment for goods and services. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

- (1) Provides the goods and services within normal business operations;

- (2) Provides similar goods or services to many different purchasers;
- (3) Operates in a competitive environment;
- (4) Provides goods or services that are ancillary to the operation of the Federal program; and
- (5) Is not subject to compliance requirements of the Federal program.

(d) Use of judgment in making determination. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.

(e) For-profit subrecipient. Since this part 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 contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

(f) Compliance responsibility for vendors. In most cases, the auditee's compliance responsibility for vendors 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. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements.

§ .215 Relation to other audit requirements.

(a) Audit under this part in lieu of other audits. An audit made in accordance with this part shall be in lieu of any financial audit required under individual Federal awards. To the extent this audit meets a Federal agency's needs, it shall rely upon and use such audits. The provisions of this part neither limit the authority of Federal agencies, including their Inspectors General, or GAO to conduct or arrange for additional audits (e.g., financial audits, performance audits, evaluations, inspections, or reviews) nor authorize any auditee to constrain Federal agencies from carrying out additional audits. Any additional audits shall be planned and performed in such a way as to build upon work performed by other auditors.

(b) Federal agency to pay for additional audits. A Federal agency that conducts or contracts for additional audits shall, consistent with other applicable laws and regulations, arrange for funding the full cost of such additional audits.

(c) Request for a program to be audited as a major program. A Federal agency may request an auditee to have a particular Federal program audited as a major program in lieu of the Federal agency conducting or arranging for the additional audits. To allow for planning, such requests should be made at least 180 days prior to the end of the fiscal year to be audited. The auditee, after consultation with its auditor, should promptly respond to such request by informing the Federal agency whether the program would otherwise be audited as a major program using the risk-based audit approach described in § __.520 and, if not, the estimated incremental cost. The Federal agency shall then promptly confirm to the auditee whether it wants the program audited as a major program. If the program is to be audited as a major program based upon this Federal agency request, and the Federal agency agrees to pay the full incremental costs, then the auditee shall have the program audited as a major program. A pass-through entity may use the provisions of this paragraph for a subrecipient.

§ __.220 Frequency of audits.

Except for the provisions for biennial audits provided in paragraphs (a) and (b) of this section, audits required by this part shall be performed annually. Any biennial audit shall cover both years within the biennial period.

(a) 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 pursuant to this part biennially. This requirement must still be in effect for the biennial period under audit.

(b) 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 pursuant to this part biennially.

§ __.225 Sanctions.

No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

(a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;

(b) Withholding or disallowing overhead costs;

(c) Suspending Federal awards until the audit is conducted; or

(d) Terminating the Federal award.

§ __.230 Audit costs.

(a) Allowable costs. Unless prohibited by law, the cost of audits made in accordance with the provisions of this part 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 Federal Acquisition Regulation (FAR) (48 CFR parts 30 and 31), or other applicable cost principles or regulations.

(b) Unallowable costs. A non-Federal entity shall not charge the following to a Federal award:

(1) The cost of any audit under the Single Audit Act Amendments of 1996 (31 U.S.C. 7501 et seq.) not conducted in accordance with this part.

(2) 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 and is thereby exempted under **§__.200(d)** from having an audit conducted under this part. However, this does not prohibit a pass-through entity from charging Federal awards for the cost of limited scope audits to monitor its subrecipients in accordance with **§__.400(d)(3)**, provided the subrecipient does not have a single audit. For purposes of this part, limited scope audits only include agreed-upon procedures engagements conducted in accordance with either the AICPA's generally accepted auditing standards or attestation standards, that are paid for and arranged by a pass-through entity and address only one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and, reporting.

§__.235 Program-specific audits.

(a) Program-specific audit guide available. In many cases, a program-specific audit guide will be available to provide specific guidance to the auditor with respect to internal control, compliance requirements, suggested audit procedures, and audit reporting requirements. The auditor should contact the Office of Inspector General of the Federal agency to determine whether such a guide is available. When a current program-specific audit guide is available, the auditor shall follow GAGAS and the guide when performing a program-specific audit.

(b) Program-specific audit guide not available. (1) When a program-specific audit guide is not available, the auditee and auditor shall have basically the same responsibilities for the Federal program as they would have for an audit of a major program in a single audit.

(2) The auditee shall prepare the financial statement(s) for the Federal program that includes, at a minimum, a schedule of expenditures of Federal awards for the program and notes that describe the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings consistent with the requirements of **§__.315(b)**, and a corrective action plan consistent with the requirements of **§__.315(c)**.

(3) The auditor shall:

(i) Perform an audit of the financial statement(s) for the Federal program in accordance with GAGAS;

(ii) Obtain an understanding of internal control and perform tests of internal control over the Federal program consistent with the requirements of **§__.500(c)** for a major program;

(iii) Perform procedures to determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on the Federal program consistent with the requirements of **§__.500(d)** for a major program; and

(iv) Follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding in accordance with the requirements of § __.500(e).

(4) The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) shall state that the audit was conducted in accordance with this part and include the following:

(i) An opinion (or disclaimer of opinion) as to whether the financial statement(s) of the Federal program is presented fairly in all material respects in conformity with the stated accounting policies;

(ii) 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;

(iii) A report on compliance which includes an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on the Federal program; and

(iv) 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 § __.505(d)(1) and findings and questioned costs consistent with the requirements of § __.505(d)(3).

(c) Report submission for program-specific audits.

(1) The audit shall be completed and the reporting required by paragraph (c)(2) or (c)(3) of this section 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 Federal agency that provided the funding or a different period is specified in a program-specific audit guide. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the required reporting shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period, unless a different period is specified in a program-specific audit guide.) Unless restricted by law or regulation, the auditee shall make report copies available for public inspection.

(2) When a program-specific audit guide is available, the auditee shall submit to the Federal clearinghouse designated by OMB the data collection form prepared in accordance with § __.320(b), as applicable to a program-specific audit, and the reporting required by the program-specific audit guide to be retained as an archival copy. Also, the auditee shall submit to the Federal awarding agency or pass-through entity the reporting required by the program-specific audit guide.

(3) When a program-specific audit guide is not available, the reporting package for a program-specific audit shall consist of the financial statement(s) of the Federal program, a summary schedule of prior audit findings, and a corrective action plan as described in paragraph (b)(2) of this section, and the auditor's report(s) described in paragraph (b)(4) of this section. The data collection form prepared in accordance with

§ __.320(b), as applicable to a program-specific audit, and one copy of this reporting package shall be submitted to the Federal clearinghouse designated by OMB to be retained as an archival copy. Also, when the schedule of findings and questioned costs disclosed audit findings or the summary schedule of prior audit findings reported the status of any audit findings, the auditee shall submit one copy of the reporting package to the Federal clearinghouse on behalf of the Federal awarding agency, or directly to the pass-through entity in the case of a subrecipient. Instead of submitting the reporting package to the pass-through entity, when a subrecipient is not required to submit a reporting package to the pass-through entity, the subrecipient shall provide written notification to the pass-through entity, consistent with the requirements of § __.320(e)(2). A subrecipient may submit a copy of the reporting package to the pass-through entity to comply with this notification requirement.

(d) Other sections of this part may apply. Program-specific audits are subject to § __.100 through § __.215(b), § __.220 through § __.230, § __.300 through § __.305, § __.315, § __.320(f) through § __.320(j), § __.400 through § __.405, § __.510 through § __.515, and other referenced provisions of this part unless contrary to the provisions of this section, a program-specific audit guide, or program laws and regulations.

Subpart C--Auditees

§ __.300 Auditee responsibilities.

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § __.310.

(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by § __.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.

(f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with § __.315(b) and § __.315(c), respectively.

§ __.305 Auditor selection.

(a) Auditor procurement. In procuring audit services, auditees shall follow the procurement standards prescribed by the Grants Management Common Rule (hereinafter referred to as the "A-102 Common Rule") published March 11, 1988 and amended April 19, 1995 [insert appropriate CFR citation], Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations," or the FAR (48 CFR part 42), as applicable (OMB Circulars are available from the Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503). Whenever possible, auditees shall make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises, in procuring audit services as stated in the A-102 Common Rule, OMB Circular A-110, or the FAR (48 CFR part 42), as applicable. In requesting proposals for audit services, the objectives and scope of the audit should 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.

(b) Restriction on auditor preparing indirect cost proposals. An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part 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. To minimize any disruption in existing contracts for audit services, this paragraph applies to audits of fiscal years beginning after June 30, 1998.

(c) Use of Federal auditors. Federal auditors may perform all or part of the work required under this part if they comply fully with the requirements of this part.

§ __.310 Financial statements.

(a) Financial statements. The auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements shall be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, organization-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with § __.500(a) and prepare separate financial statements.

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

(1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

(4) Include notes that describe the significant accounting policies used in preparing the schedule.

(5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

(6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

§ __.315 Audit findings follow-up.

(a) General. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings under **§ __.510(c)**. Since the summary schedule may include audit findings from multiple years, it shall include the fiscal year in which the finding initially occurred.

(b) Summary schedule of prior audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with paragraph **(b)(1)** of this section, or no longer valid or not warranting further action in accordance with paragraph **(b)(4)** of this section.

(1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

(2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.

(3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.

(4) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

(i) Two years have passed since the audit report in which

the finding occurred was submitted to the Federal clearinghouse;

(ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and

(iii) A management decision was not issued.

(c) Corrective action plan. At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

§ __.320 Report submission.

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section 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 audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

(b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

(2) The data collection form shall include the following data elements:

- (i) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (ii) 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.
- (iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee.
- (iv) Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses.
- (v) The type of report the auditor issued on compliance for major

programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).

- (vi) A list of the Federal awarding agencies which will receive a copy of the reporting package pursuant to § ___.320(d)(2) of OMB Circular A-133.
- (vii) A yes or no statement as to whether the auditee qualified as a low-risk auditee under § ___.530 of OMB Circular A-133.
- (viii) The dollar threshold used to distinguish between Type A and Type B programs as defined in § ___.520(b) of OMB Circular A-133.
- (ix) The Catalog of Federal Domestic Assistance (CFDA) number for each Federal program, as applicable.
- (x) The name of each Federal program and identification of each major program. Individual programs within a cluster of programs should be listed in the same level of detail as they are listed in the schedule of expenditures of Federal awards.
- (xi) The amount of expenditures in the schedule of expenditures of Federal awards associated with each Federal program.
- (xii) For each Federal program, a yes or no statement as to whether there are audit findings in each of the following types of compliance requirements and the total amount of any questioned costs:
 - (A) Activities allowed or unallowed.
 - (B) Allowable costs/cost principles.
 - (C) Cash management.
 - (D) Davis-Bacon Act.
 - (E) Eligibility.
 - (F) Equipment and real property management.
 - (G) Matching, level of effort, earmarking.
 - (H) Period of availability of Federal funds.
 - (I) Procurement and suspension and debarment.
 - (J) Program income.
 - (K) Real property acquisition and relocation assistance.
 - (L) Reporting.
 - (M) Subrecipient monitoring.
 - (N) Special tests and provisions.
- (xiii) Auditee Name, Employer Identification Number(s), Name and Title of Certifying Official, Telephone Number, Signature, and Date.
- (xiv) Auditor Name, Name and Title of Contact Person, Auditor Address, Auditor Telephone Number, Signature, and Date.
- (xv) Whether the auditee has either a cognizant or oversight agency for audit.
- (xvi) The name of the cognizant or oversight agency for audit determined in accordance with § ___.400(a) and § ___.400(b), respectively.

(3) Using the information included in the reporting package described in paragraph (c) of this section, the auditor shall complete the applicable sections of the form. The auditor shall sign a statement to be included as part of the data collection form that indicates, at a minimum, the source of the information included in the form, the auditor's responsibility for the information, that the form is not a substitute for the reporting package described in paragraph (c) of this section, and that the content of

the form is limited to the data elements prescribed by OMB.

(c) Reporting package. The reporting package shall include the:

- (1) Financial statements and schedule of expenditures of Federal awards discussed in § ____.310(a) and § ____.310(b), respectively;
- (2) Summary schedule of prior audit findings discussed in § ____.315(b);
- (3) Auditor's report(s) discussed in § ____.505; and
- (4) Corrective action plan discussed in § ____.315(c).

(d) Submission to clearinghouse. All auditees shall submit to the Federal clearinghouse designated by OMB the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (c) of this section for:

(1) The Federal clearinghouse to retain as an archival copy;
and

(2) Each Federal awarding agency when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the Federal awarding agency provided directly or the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that the Federal awarding agency provided directly.

(e) Additional submission by subrecipients. (1) In addition to the requirements discussed in paragraph (d) of this section, auditees that are also subrecipients shall submit to each pass-through entity one copy of the reporting package described in paragraph (c) of this section for each pass-through entity when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that the pass-through entity provided.

(2) Instead of submitting the reporting package to a pass-through entity, when a subrecipient is not required to submit a reporting package to a pass-through entity pursuant to paragraph (e)(1) of this section, the subrecipient shall provide written notification to the pass-through entity that: an audit of the subrecipient was conducted in accordance with this part (including the period covered by the audit and the name, amount, and CFDA number of the Federal award(s) provided by the pass-through entity); the schedule of findings and questioned costs disclosed no audit findings relating to the Federal award(s) that the pass-through entity provided; and, the summary schedule of prior audit findings did not report on the status of any audit findings relating to the Federal award(s) that the pass-through entity provided. A subrecipient may submit a copy of the reporting package described in paragraph (c) of this section to a pass-through entity to comply with this notification requirement.

(f) Requests for report copies. In response to requests by a Federal agency or pass-through entity, auditees shall submit the appropriate copies of the reporting package described in paragraph (c) of this section and, if requested, a copy of any management letters issued by the auditor.

(g) Report retention requirements. Auditees shall keep one copy of the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (c) of this section on file for three years from the date of submission to the Federal clearinghouse

designated by OMB. Pass-through entities shall keep subrecipients' submissions on file for three years from date of receipt.

(h) Clearinghouse responsibilities. The Federal clearinghouse designated by OMB shall distribute the reporting packages received in accordance with paragraph (d) (2) of this section and § ____ .235 (c) (3) to applicable Federal awarding agencies, maintain a data base of completed audits, provide appropriate information to Federal agencies, and follow up with known auditees which have not submitted the required data collection forms and reporting packages.

(i) Clearinghouse address. The address of the Federal clearinghouse currently designated by OMB is Federal Audit Clearinghouse, Bureau of the Census, 1201 E. 10th Street, Jeffersonville, IN 47132.

(j) Electronic filing. Nothing in this part shall preclude electronic submissions to the Federal clearinghouse in such manner as may be approved by OMB. With OMB approval, the Federal clearinghouse may pilot test methods of electronic submissions.

Subpart D--Federal Agencies and Pass-Through Entities
§ ____ .400 Responsibilities.

(a) Cognizant agency for audit responsibilities. Recipients expending more than \$25 million (*\$50 million for fiscal years ending after December 31, 2003*) a year in Federal awards shall have a cognizant agency for audit. The designated cognizant agency for audit shall be the Federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB makes a specific cognizant agency for audit assignment.

Following is effective for fiscal years ending on or before December 31, 2003: To provide for continuity of cognizance, the determination of the predominant amount of direct funding shall be based upon direct Federal awards expended in the recipient's fiscal years ending in 1995, 2000, 2005, and every fifth year thereafter. For example, audit cognizance for periods ending in 1997 through 2000 will be determined based on Federal awards expended in 1995. (However, for States and local governments that expend more than \$25 million a year in Federal awards and have previously assigned cognizant agencies for audit, the requirements of this paragraph are not effective until fiscal years beginning after June 30, 2000.)

Following is effective for fiscal years ending after December 31, 2003: The determination of the predominant amount of direct funding shall be based upon direct Federal awards expended in the recipient's fiscal years ending in 2004, 2009, 2014, and every fifth year thereafter. For example, audit cognizance for periods ending in 2006 through 2010 will be determined based on Federal awards expended in 2004. (However, for 2001 through 2005, the cognizant agency for audit is determined based on the predominant amount of direct Federal awards expended in the recipient's fiscal year ending in 2000).

Notwithstanding the manner in which audit cognizance is determined, a Federal awarding agency with cognizance for an auditee may reassign cognizance to another Federal awarding agency which provides substantial direct funding and agrees to be the cognizant agency for audit. Within 30 days after any reassignment, both the old and the new cognizant agency for audit shall notify the auditee, and, if known, the auditor of the reassignment. The cognizant agency for audit shall:

(1) Provide technical audit advice and liaison to auditees and auditors.

(2) Consider auditee requests for extensions to the report

submission due date required by § __.320(a). The cognizant agency for audit may grant extensions for good cause.

(3) Obtain or conduct quality control reviews of selected audits made by non-Federal auditors, and provide the results, when appropriate, to other interested organizations.

(4) Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any direct reporting by the auditee or its auditor of irregularities or illegal acts, as required by GAGAS or laws and regulations.

(5) Advise the auditor and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit shall notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies or repetitive substandard performance by auditors shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action.

(6) Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to the audits made pursuant to this part, so that the additional audits or reviews build upon audits performed in accordance with this part.

(7) Coordinate a management decision for audit findings that affect the Federal programs of more than one agency.

(8) Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.

(9) For biennial audits permitted under § __.220, consider auditee requests to qualify as a low-risk auditee under § __.530(a).

(b) Oversight agency for audit responsibilities. An auditee which does not have a designated cognizant agency for audit will be under the general oversight of the Federal agency determined in accordance with § __.105. The oversight agency for audit:

(1) Shall provide technical advice to auditees and auditors as requested.

(2) May assume all or some of the responsibilities normally performed by a cognizant agency for audit.

(c) Federal awarding agency responsibilities. The Federal awarding agency shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each recipient of the CFDA title and number, award name and number, award year, and if the award is for R&D. When some of this information is not available, the Federal agency shall provide information necessary to clearly describe the Federal award.

(2) Advise recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.

(3) Ensure that audits are completed and reports are received

in a timely manner and in accordance with the requirements of this part.

(4) Provide technical advice and counsel to auditees and auditors as requested.

(5) Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

(6) Assign a person responsible for providing annual updates of the compliance supplement to OMB.

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§ __.405 Management decision.

(a) General. The management decision shall 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 given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, 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.

(b) Federal agency. As provided in § __.400 (a) (7), the cognizant agency for audit shall be responsible for coordinating a management decision for audit findings that affect the programs of more than one Federal agency.

As provided in § __.400(c)(5), a Federal awarding agency is responsible for issuing a management decision for findings that relate to Federal awards it makes to recipients. Alternate arrangements may be made on a case-by-case basis by agreement among the Federal agencies concerned.

(c) Pass-through entity. As provided in § __.400(d)(5), the pass-through entity shall be responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.

(d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

(e) Reference numbers. Management decisions shall include the reference numbers the auditor assigned to each audit finding in accordance with § __.510(c).

Subpart E--Auditors

§ __.500 Scope of audit.

(a) General. The audit shall be conducted in accordance with GAGAS. The audit shall cover the entire operations of the auditee; or, at the option of the auditee, such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year, provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which shall be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards shall be for the same fiscal year.

(b) Financial statements. The auditor shall determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles. The auditor shall also determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the auditee's financial statements taken as a whole.

(c) Internal control. (1) In addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.

(2) Except as provided in paragraph (c)(3) of this section, the auditor shall:

(i) Plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and

(ii) Perform testing of internal control as planned in paragraph (c)(2)(i) of this section.

(3) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(2) of this section are not required for those compliance requirements. However, the auditor shall report a reportable condition (including whether any such condition is a material weakness) in accordance with § __.510, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective

internal control.

(d) Compliance. (1) In addition to the requirements of GAGAS, the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

(2) The principal compliance requirements applicable to most Federal programs and the compliance requirements of the largest Federal programs are included in the compliance supplement.

(3) 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 shall determine the current compliance requirements and modify the audit procedures accordingly. For those Federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

(4) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

(e) Audit follow-up. The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with § __.315(b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.

(f) Data Collection Form. As required in § __.320(b)(3), the auditor shall complete and sign specified sections of the data collection form.

§ __.505 Audit reporting.

The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) shall state that the audit was conducted in accordance with this part and include the following:

(a) 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.

(b) A report on internal control related to the financial statements and major programs. This report shall describe the scope of testing of internal control and the results of the tests, and, where applicable, refer to the separate schedule of findings and questioned costs described in paragraph (d) of this section.

(c) 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. This report shall also include an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program, and, where applicable, refer to the separate schedule of findings and questioned costs described in paragraph (d) of this section.

(d) A schedule of findings and questioned costs which shall include the following three components:

(1) A summary of the auditor's results which shall include:

(i) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

(ii) 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;

(iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee;

(iv) Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses;

(v) The type of report the auditor issued on compliance for major programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

(vi) A statement as to whether the audit disclosed any audit findings which the auditor is required to report under § __.510 (a);

(vii) An identification of major programs;

(viii) The dollar threshold used to distinguish between Type A and Type B programs, as described in § __.520 (b); and

(ix) A statement as to whether the auditee qualified as a low-risk auditee under § __.530.

(2) Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

(3) Findings and questioned costs for Federal awards which shall include audit findings as defined in § __.510 (a).

(i) 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. Where practical, audit findings should be organized by Federal agency or pass-through entity.

(ii) Audit findings which relate to both the financial statements and Federal awards, as reported under paragraphs (d) (2) and (d) (3) of this section, respectively, 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.

§ __.510 **Audit findings.**

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(1) Reportable conditions in internal control over major programs. The auditor's determination of whether a deficiency in internal control is a reportable condition for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement. The auditor shall identify reportable conditions which are individually or cumulatively material weaknesses.

(2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. The auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement.

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

(4) Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this part to perform audit procedures for such a Federal program; therefore, the auditor will normally not find questioned costs for a program which is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program which is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$10,000, then the auditor shall report this as an audit finding.

(5) The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.

(6) Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS.

(7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with § ___.315(b) materially misrepresents the status of any prior audit finding.

(b) Audit finding detail. Audit findings shall be presented in sufficient detail 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. The following specific information shall be

included, as applicable, in audit findings:

(1) Federal program and specific Federal award identification including the CFDA title and number, Federal award number and year, name of Federal agency, and name of the applicable pass-through entity. When information, such as the CFDA title and number or Federal award number, is not available, the auditor shall provide the best information available to describe the Federal award.

(2) The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.

(3) The condition found, including facts that support the deficiency identified in the audit finding.

(4) Identification of questioned costs and how they were computed.

(5) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value.

(6) The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action.

(7) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.

(8) Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.

(c) Reference numbers. Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

§ __.515 Audit working papers.

(a) Retention of working papers. The auditor shall retain working papers and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, or pass-through entity to extend the retention period. When the auditor is aware that the Federal awarding agency, pass-through entity, or auditee is contesting an audit finding, the auditor shall contact the parties contesting the audit finding for guidance prior to destruction of the working papers and reports.

(b) Access to working papers. Audit working papers shall be made available upon request to the cognizant or oversight agency for audit or its designee, a Federal agency providing direct or indirect funding, or GAO 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 this part. Access to working papers includes the right of Federal agencies to obtain copies of working papers, as is reasonable and necessary.

§ __.520 Major program determination.

(a) General. The auditor shall use a risk-based approach to determine which Federal programs are major programs. This risk-based approach shall include consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. The process in paragraphs (b) through (i) of this section shall be followed.

(b) Step 1. (1) The auditor shall identify the larger Federal programs, which shall be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:

(i) \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million.

(ii) \$3 million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$100 million but are less than or equal to \$10 billion.

(iii) \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$10 billion.

(2) Federal programs not labeled Type A under paragraph (b) (1) of this section shall be labeled Type B programs.

(3) The inclusion of large loan and loan guarantees (loans) should not result in the exclusion of other programs as Type A programs. When a Federal program providing loans significantly affects the number or size of Type A programs, the auditor shall consider this Federal program as a Type A program and exclude its values in determining other Type A programs.

(4) For biennial audits permitted under § __.220, the determination of Type A and Type B programs shall be based upon the Federal awards expended during the two-year period.

(c) Step 2. (1) The auditor shall identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, it shall have had no audit findings under § __.510(a). However, the auditor may use judgment and consider that audit findings from questioned costs under § __.510(a)(3) and § __.510(a)(4), fraud under § __.510(a)(6), and audit follow-up for the summary schedule of prior audit findings under § __.510(a)(7) do not preclude the Type A program from being low-risk. The auditor shall consider: the criteria in § __.525(c), § __.525(d)(1), § __.525(d)(2), and § __.525(d)(3); the results of audit follow-up; whether any changes in personnel or systems affecting a Type A program have significantly increased risk; and apply professional judgment in determining whether a Type A program is low-risk.

(2) Notwithstanding paragraph (c) (1) of this section, OMB may approve a Federal awarding agency's request that a Type A program at certain recipients may not be considered low-risk. For example, it may be necessary for a large Type A program to be audited as major each year at particular recipients to allow the Federal agency to comply with the Government Management Reform Act of 1994 (31 U.S.C. 3515). The Federal agency shall notify the recipient and, if known, the auditor at least 180 days prior to the

end of the fiscal year to be audited of OMB's approval.

(d) Step 3. (1) The auditor shall identify Type B programs which are high-risk using professional judgment and the criteria in § .525. However, should the auditor select Option 2 under Step 4 (paragraph (e)(2)(i)(B) of this section), the auditor is not required to identify more high-risk Type B programs than the number of low-risk Type A programs. Except for known reportable conditions in internal control or compliance problems as discussed in § .525(b)(1), § .525(b)(2), and § .525(c)(1), a single criteria in § .525 would seldom cause a Type B program to be considered high-risk.

(2) The auditor is not expected to perform risk assessments on relatively small Federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed the larger of:

(i) \$100,000 or three-tenths of one percent (.003) of total Federal awards expended when the auditee has less than or equal to \$100 million in total Federal awards expended.

(ii) \$300,000 or three-hundredths of one percent (.0003) of total Federal awards expended when the auditee has more than \$100 million in total Federal awards expended.

(e) Step 4. At a minimum, the auditor shall audit all of the following as major programs:

(1) All Type A programs, except the auditor may exclude any Type A programs identified as low-risk under Step 2 (paragraph (c)(1) of this section).

(2) (i) High-risk Type B programs as identified under either of the following two options:

(A) Option 1. At least one half of the Type B programs identified as high-risk under Step 3 (paragraph (d) of this section), except this paragraph (e)(2)(i)(A) does not require the auditor to audit more high-risk Type B programs than the number of low-risk Type A programs identified as low-risk under Step 2.

(B) Option 2. One high-risk Type B program for each Type A program identified as low-risk under Step 2.

(ii) When identifying which high-risk Type B programs to audit as major under either Option 1 or 2 in paragraph (e)(2)(i)(A) or (B), 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.

(3) Such additional programs as may be necessary to comply with the percentage of coverage rule discussed in paragraph (f) of this section. This paragraph (e)(3) may require the auditor to audit more programs as major than the number of Type A programs.

(f) Percentage of coverage rule. The auditor shall audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 50 percent of total Federal awards expended. If the auditee meets the criteria in § .530 for a low-risk auditee, the auditor need only audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 25 percent of total Federal awards expended.

(g) Documentation of risk. The auditor shall document in the working

papers the risk analysis process used in determining major programs.

(h) Auditor's judgment. When the major program determination was performed and documented in accordance with this part, the auditor's judgment in applying the risk-based approach to determine major programs shall be presumed correct. Challenges by Federal agencies and pass-through entities shall only be for clearly improper use of the guidance in this part. However, Federal agencies and pass-through entities may provide auditors guidance about the risk of a particular Federal program and the auditor shall consider this guidance in determining major programs in audits not yet completed.

(i) Deviation from use of risk criteria. For first-year audits, the auditor may elect to determine major programs as all Type A programs plus any Type B programs as necessary to meet the percentage of coverage rule discussed in paragraph (f) of this section. Under this option, the auditor would not be required to perform the procedures discussed in paragraphs (c), (d), and (e) of this section.

(1) A first-year audit is the first year the entity is audited under this part or the first year of a change of auditors.

(2) To ensure that a frequent change of auditors would not preclude audit of high-risk Type B programs, this election for first-year audits may not be used by an auditee more than once in every three years.

§ __.525 Criteria for Federal program risk.

(a) General. The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring which could be material to the Federal program. The auditor shall use auditor judgment and consider criteria, such as described in paragraphs (b), (c), and (d) of this section, to identify risk in Federal programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular Federal program with auditee management and the Federal agency or pass-through entity.

(b) Current and prior audit experience. (1) Weaknesses in internal control over Federal programs would indicate higher risk. Consideration should be given to the control environment over Federal programs and such factors as the expectation of management's adherence to applicable laws and regulations and the provisions of contracts and grant agreements and the competence and experience of personnel who administer the Federal programs.

(i) A Federal program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor shall consider whether weaknesses are isolated in a single operating unit (e.g., one college campus) or pervasive throughout the entity.

(ii) When significant parts of a Federal program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk.

(iii) The extent to which computer processing is used to administer Federal programs, as well as the complexity of that processing, should be considered by the auditor in assessing risk. New and recently modified computer systems may also indicate risk.

(2) Prior audit findings would indicate higher risk, particularly when the situations identified in the audit findings could have a significant impact on a Federal program or have not been corrected.

(3) Federal programs not recently audited as major programs

may be of higher risk than Federal programs recently audited as major programs without audit findings.

(c) Oversight exercised by Federal agencies and pass-through entities.

(1) Oversight exercised by Federal agencies or pass-through entities could indicate risk. For example, recent monitoring or other reviews performed by an oversight entity which disclosed no significant problems would indicate lower risk. However, monitoring which disclosed significant problems would indicate higher risk.

(2) Federal agencies, with the concurrence of OMB, may identify Federal programs which are higher risk. OMB plans to provide this identification in the compliance supplement.

(d) Inherent risk of the Federal program. (1) The nature of a Federal program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the Federal program contracts for goods and services. For example, Federal programs that disburse funds through third party contracts or have eligibility criteria may be of higher risk. Federal programs primarily involving staff payroll costs may have a high-risk for time and effort reporting, but otherwise be at low-risk.

(2) The phase of a Federal program in its life cycle at the Federal agency may indicate risk. For example, a new Federal program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in Federal programs, laws, regulations, or the provisions of contracts or grant agreements may increase risk.

(3) The phase of a Federal program in its life cycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a Federal program, the risk may be higher due to start-up or closeout of program activities and staff.

(4) Type B programs with larger Federal awards expended would be of higher risk than programs with substantially smaller Federal awards expended.

§ __.530 Criteria for a low-risk auditee.

An auditee which meets all of the following conditions for each of the preceding two years (or, in the case of biennial audits, preceding two audit periods) shall qualify as a low-risk auditee and be eligible for reduced audit coverage in accordance with § __.520:

(a) Single audits were performed on an annual basis in accordance with the provisions of this part. A non-Federal entity that has biennial audits does not qualify as a low-risk auditee, unless agreed to in advance by the cognizant or oversight agency for audit.

(b) The auditor's opinions on the financial statements and the schedule of expenditures of Federal awards were unqualified. However, the cognizant or oversight agency for audit may judge that an opinion qualification does not affect the management of Federal awards and provide a waiver.

(c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS. However, the cognizant or oversight agency for audit may judge that any identified material weaknesses do not affect the management of Federal awards and provide a waiver.

(d) None of the Federal programs had audit findings from any of the following in either of the preceding two years (or, in the case of biennial audits, preceding two audit periods) in which they were classified as Type A programs:

(1) Internal control deficiencies which were identified as material weaknesses;

(2) Noncompliance with the provisions of laws, regulations, contracts, or grant agreements which have a material effect on the Type A program; or

(3) Known or likely questioned costs that exceed five percent of the total Federal awards expended for a Type A program during the year.

Appendix A to Part ___ - Data Collection Form (Form SF-SAC)
[insert SF-SAC after finalized]

Appendix B to Part ___ - Circular A-133 Compliance Supplement

Note: Provisional OMB Circular A-133 Compliance Supplement is available from the Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503.

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IC 5-11**ARTICLE 11. ACCOUNTING FOR PUBLIC FUNDS****IC 5-11-1**

Chapter 1. State Board of Accounts Created

IC 5-11-1-1**Establishment; members; appointment; qualifications; terms; tenure**

Sec. 1. There is established a state board of accounts. The board consists of the state examiner and two (2) deputy examiners as provided in this section. The principal officer of the board is the state examiner, who shall be appointed by the governor and who shall hold office for a term of four (4) years from the date of appointment. The state examiner must be a certified public accountant with at least three (3) consecutive years of active experience as a field examiner with the state board of accounts that immediately precedes the appointment as state examiner. The governor shall also appoint two (2) deputy examiners, who must have the same qualifications as the state examiner, be of different political parties, and be subordinate to the state examiner. The deputy examiners shall be appointed for terms of four (4) years. The state examiner and the deputy examiners are subject to removal by the governor for incompetency or for misconduct of the office, after a hearing upon due notice and upon stated charges in writing. An appeal may be taken by the officer removed to the circuit or a superior court of Marion County.

(Formerly: Acts 1909, c.55, s.1; Acts 1915, c.72, s.1; Acts 1941, c.110, s.1; Acts 1943, c.236, s.1; Acts 1945, c.176, s.1.) As amended by Acts 1980, P.L.30, SEC.1; P.L.3-1986, SEC.7; P.L.39-1996, SEC.1; P.L.246-2005, SEC.53.

IC 5-11-1-2**System of accounting and reporting**

Sec. 2. (a) The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following:

(1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe.

(2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals.

- (3) Show the receipt, use, and disposition of all public property and the income, if any, derived from the property.
- (4) Show all sources of public income and the amounts due and received from each source.
- (5) Show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction.

The state board of accounts shall formulate or approve all statements and reports necessary for the internal administration of the office to which the statements and reports pertain. The state board of accounts shall approve all reports that are published or that are required to be filed in the office of state examiner. The state board of accounts shall from time to time make and enforce changes in the system and forms of accounting and reporting as necessary to conform to law.

(b) Notwithstanding subsection (a), the state board of accounts may not require a municipality to use an electronic, automated, or computerized system of accounting and reporting. However, if a municipality elects to use an electronic, automated, or computerized system of accounting, the system must conform to the requirements of this chapter.

(Formerly: Acts 1909, c.55, s.2; Acts 1945, c.176, s.2.) As amended by Acts 1980, P.L.30, SEC.2; P.L.3-1986, SEC.8; P.L.39-1996, SEC.2.

IC 5-11-1-3

Separate accounts

Sec. 3. Separate accounts shall be kept for every appropriation or fund of the state or any municipality. Separate accounts shall also be kept for each department, undertaking, enterprise, institution, and public service industry.

(Formerly: Acts 1909, c.55, s.3.) As amended by Acts 1980, P.L.30, SEC.3.

IC 5-11-1-4

Financial reports

Sec. 4. (a) The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. Except as provided by subsection (b), these reports shall be prepared, verified, and filed with the state examiner not later than thirty (30) days after the close of each fiscal year.

(b) The following shall prepare, verify, and file the reports required under subsection (a) not later than sixty (60) days after the close of each fiscal year:

- (1) A municipal government.
- (2) A public library.

(3) A district (as defined in IC 13-11-2-58(a)) that owns a landfill (as defined in IC 13-11-2-116(c)).

(Formerly: Acts 1909, c.55, s.4.) As amended by Acts 1980, P.L.30, SEC.4; P.L.3-1986, SEC.9; P.L.44-1991, SEC.1; P.L.50-2000, SEC.2; P.L.189-2005, SEC.1.

IC 5-11-1-5

Repealed

(Repealed by Acts 1980, P.L.30, SEC.19.)

IC 5-11-1-6

Forms of reports

Sec. 6. The state board of accounts shall formulate, prescribe, and approve the forms for reports required to be made by this chapter. The state examiner shall annually furnish to the officers required to make reports by this chapter such printed blanks and forms, on which shall be indicated the information required, together with suitable printed instructions for filling out the same.

(Formerly: Acts 1909, c.55, s.6.) As amended by Acts 1980, P.L.30, SEC.5.

IC 5-11-1-7**Field examiners; private examiners**

Sec. 7. (a) The state examiner shall appoint assistants not exceeding the number required to administer this article. The assistants are to be known as "field examiners" and are at all times subject to the order and direction of the state examiner. Field examiners shall inspect and examine accounts of all state agencies, municipalities, and other governmental units, entities, or instrumentalities.

(b) The state examiner may engage or allow the engagement of private examiners to the extent the state examiner determines necessary to satisfy the requirements of this article. These examiners are subject to the direction of the state examiner while performing examinations under this article.

(c) The state examiner may engage experts to assist the state board of accounts in carrying out its responsibilities under this article.

(Formerly: Acts 1909, c.55, s.7.) As amended by Acts 1980, P.L.30, SEC.6; P.L.3-1986, SEC.10.

IC 5-11-1-8**Field examiners; examinations**

Sec. 8. Such field examiners shall be appointed from applicants who shall have successfully passed an open, competitive examination for testing their fitness for appointment. Such examinations shall be given under the direction of the board after due announcement in the public press, and shall be practical in their character, and, as far as may be, shall relate to those matters which will fairly test the relative capacity and fitness of the persons examined to discharge the duties of the office. All appointments of field examiners shall be made solely upon the ground of fitness and without regard to the political affiliation of the appointee, excepting that no more than one-half (1/2) of the number of field examiners employed at any one (1) time shall belong to any one (1) political party. The state board of accounts is empowered to make and establish, and from time to time alter and amend, by-laws, rules and regulations for the proper enforcement of the provisions of this article and other laws placing duties and responsibilities on the state board of accounts.

(Formerly: Acts 1909, c.55, s.8.) As amended by Acts 1980, P.L.30, SEC.7.

IC 5-11-1-9**Financial examinations; required inquiries; inefficiencies encountered; witnesses; records; process**

Sec. 9. (a) The state examiner, personally or through the deputy examiners, field examiners, or private examiners, shall examine all accounts and all financial affairs of every public office and officer, state office, state institution, and entity.

(b) An examination of an entity deriving:

(1) less than fifty percent (50%); or

(2) at least fifty percent (50%) but less than one hundred thousand dollars (\$100,000) if the entity is organized as a not-for-profit corporation;

of its disbursements during the period of time subject to an examination from appropriations, public funds, taxes, and other sources of public expense shall be limited to matters relevant to the use of the public money received by the entity.

(c) The examination of an entity described in subsection (b) may be waived or deferred by the state examiner if the state examiner determines in writing that all disbursements of public money during the period subject to examination were made for the purposes for which the money was received. However, the:

(1) Indiana economic development corporation created by IC 5-28-3 and the corporation's funds, accounts, and financial affairs; and

(2) department of financial institutions established by IC 28-11-1-1 and the department's funds, accounts, and financial affairs;

shall be examined biennially by the state board of accounts.

(d) On every examination under this section, inquiry shall be made as to the following:

(1) The financial condition and resources of each municipality, office, institution, or entity.

(2) Whether the laws of the state and the uniform compliance guidelines of the state board of accounts established under section 24 of this chapter have been complied with.

(3) The methods and accuracy of the accounts and reports of the person examined.

The examinations shall be made without notice.

(e) If during an examination of a state office under this chapter the examiner encounters an inefficiency in the operation of the state office, the examiner may comment on the inefficiency in the examiner's report.

(f) The state examiner, deputy examiners, any field examiner, or any private examiner, when engaged in making any examination or when engaged in any official duty devolved upon them by the state examiner, is entitled to do the following:

(1) Enter into any state, county, city, township, or other public office in this state, or any entity, agency, or instrumentality, and examine any books, papers, documents, or electronically stored information for the purpose of making an examination.

(2) Have access, in the presence of the custodian or the custodian's deputy, to the cash drawers and cash in the custody of the officer.

(3) During business hours, examine the public accounts in any depository that has public funds in

its custody pursuant to the laws of this state.

(g) The state examiner, deputy examiner, or any field examiner, when engaged in making any examination authorized by law, may issue subpoenas for witnesses to appear before the examiner in person or to produce books, papers, or other records (including records stored in electronic data processing systems) for inspection and examination. The state examiner, deputy examiner, and any field examiner may administer oaths and examine witnesses under oath orally or by interrogatories concerning the matters under investigation and examination. Under the authority of the state examiner, the oral examinations may be transcribed with the reasonable expense paid by the examined person in the same manner as the compensation of the field examiner is paid. The subpoenas shall be served by any person authorized to serve civil process from any court in this state. If a witness duly subpoenaed refuses to attend, refuses to produce information required in the subpoena, or attends and refuses to be sworn or affirmed, or to testify when called upon to do so, the examiner may apply to the circuit court having jurisdiction of the witness for the enforcement of attendance and answers to questions as provided by the law governing the taking of depositions.

(Formerly: Acts 1909, c.55, s.9; Acts 1945, c.176, s.3.) As amended by Acts 1978, P.L.2, SEC.506; Acts 1980, P.L.30, SEC.8; P.L.3-1986, SEC.11; P.L.63-1989, SEC.1; P.L.70-1995, SEC.1; P.L.39-1996, SEC.3; P.L.50-1999, SEC.1; P.L.4-2005, SEC.25; P.L.213-2007, SEC.2; P.L.217-2007, SEC.2.

IC 5-11-1-9.5

Grounds for examination; retaliation for making sworn statement prohibited

Sec. 9.5. (a) The state examiner may not undertake an examination of a public office, officer, or institution based on the allegation of an individual, organization, or institution that a violation of the law has occurred unless:

- (1) the individual or representative of the organization or institution makes the allegation in the form of a sworn statement that the individual or representative believes the allegation to be true; or
- (2) the state examiner has probable cause to believe that a violation of the law has occurred.

(b) A public office, officer, or institution may not retaliate against an employee of the state or a political subdivision for making the sworn statement described in subsection (a).

As added by P.L.51-1985, SEC.1.

IC 5-11-1-9.7

Withdrawal or removal of counties from solid waste management districts

Sec. 9.7. (a) The state examiner, personally or through the deputy examiners, field examiners, or private examiners, shall examine the division under IC 13-21-4-4 of the responsibility for legal obligations entered into by a joint solid waste management district upon the withdrawal or removal of a county from the district.

(b) Not later than one hundred twenty (120) days after the effective date of the withdrawal or removal, the state examiner shall issue a report of the examination under subsection (a) to:

- (1) the board of directors of the joint solid waste management district; and
- (2) the executive of the county that withdrew or was removed from the joint solid waste

management district.

(c) A report under this section may be used as evidence in an action seeking to enforce the payment of legal obligations entered into by a joint solid waste management district.

As added by P.L.74-2002, SEC.1.

IC 5-11-1-10

Failure to file report; interference with examiners; offense

Sec. 10. A public officer who:

- (1) fails to make, verify, and file with the state examiner any report required by this chapter;
 - (2) fails to follow the directions of the state examiner in keeping the accounts of the officer's office;
 - (3) refuses the state examiner, deputy examiner, field examiner, or private examiner access to the books, accounts, papers, documents, cash drawer, or cash of the officer's office; or
 - (4) interferes with an examiner in the discharge of the examiner's official duties;
- commits a Class B infraction and forfeits office.

(Formerly: Acts 1909, c.55, s.10.) As amended by Acts 1978, P.L.2, SEC.507; P.L.3-1986, SEC.12.

IC 5-11-1-11

Records of money collected; public inspection

Sec. 11. There shall be kept in the office of each public officer, board, commission, agency, instrumentality, and institution in this state, a record of money collected for the public treasury, the forms and records for which, for each class of offices, shall be devised and formulated by the state board of accounts. Such records as are provided for in this section shall be public records and must be accessible to the public during regular office hours.

(Formerly: Acts 1909, c.55, s.11.) As amended by Acts 1980, P.L.30, SEC.9.

IC 5-11-1-12

Repealed

(Repealed by Acts 1980, P.L.30, SEC.19.)

IC 5-11-1-13

Warrants or checks of state or municipality; receipts or quietus; correctness of claims

Sec. 13. Each officer having authority to draw the warrant or check of the state or of any municipality referred to in this chapter in disbursing its funds, or who has authority to execute the receipt or quietus of the state or of such municipality in settlement with public officers or with debtors, before presenting the same for allowance to the board or other authority required to pass upon the same, shall make an examination of all claims as to their form, the authentication thereof as required by law, whether they are based upon contract or statutory authority, and as to their apparent correctness, and upon presenting the same to file therewith his certificate in writing as to such matters in respect to each and all of such claims. Where the authority to pass upon and allow such claim is lodged in such officer, he shall, before

drawing a warrant or check therefor, certify to the correctness thereof over his official signature. Before issuing the receipt or quietus of the state or municipality to any debtor or any officer making settlement, he shall examine the report, account or settlement sheet upon which settlement is made, and require of such debtor or officer, or to otherwise secure, all such information, accounts, vouchers or exhibits as shall be necessary to satisfy such officer issuing such receipt or quietus of the correctness of such report, account or settlement sheet, and to certify thereon that he has made such examination and is satisfied as to its correctness, and no such warrant, check, receipt, or quietus shall be issued by any such officer until such certificate shall have been executed and filed with such claim, report, account or settlement sheet. Where it is not practical for the officer to certify to the correctness of each revenue or claim document, the state board of accounts may prescribe other methods of preaudit to be performed before approval by the officer or his employees.

(Formerly: Acts 1909, c.55, s.13.) As amended by Acts 1980, P.L.30, SEC.10.

IC 5-11-1-14

Salaries and traveling expenses of state examiner, deputies, and assistants

Sec. 14. The salaries and necessary traveling expenses of the state examiner, his deputies, and assistants when engaged in the business of the state shall be paid as otherwise provided by law.

(Formerly: Acts 1909, c.55, s.15.) As amended by Acts 1980, P.L.30, SEC.11.

IC 5-11-1-15

Bonds and crime policies for faithful performance

Sec. 15. (a) The state examiner, deputy examiners, and field examiners shall each give bond for the faithful performance of the

examiner's duties, as follows:

(1) The state examiner in the sum of five thousand dollars (\$5,000), to be approved by the governor.

(2) Each deputy examiner in the sum of three thousand dollars (\$3,000), to be approved by the governor.

(3) Each field examiner in the sum of one thousand dollars (\$1,000), to be approved by the state examiner. However, field examiners may be covered by a blanket bond or crime insurance policy endorsed to include faithful performance under IC 5-4-1-15.1 subject to approval of the state examiner.

(b) The commissioner of insurance shall prescribe the form of the bonds or crime policies required by this section.

(Formerly: Acts 1909, c.55, s.16; Acts 1967, c.268, s.1.) As amended by P.L.3-1986, SEC.13; P.L.49-1995, SEC.6.

IC 5-11-1-16

Definitions

Sec. 16. (a) As used in this article, "municipality" means any county, township, city, town, school corporation, special taxing district, or other political subdivision of Indiana.

(b) As used in this article, "state" means any board, commission, department, division, bureau,

committee, agency, governmental subdivision, military body, authority, or other instrumentality of the state, but does not include a municipality.

(c) As used in this article, "public office" means the office of any and every individual who for or on behalf of the state or any municipality or any public hospital holds, receives, disburses, or keeps the accounts of the receipts and disbursements of any public funds.

(d) As used in this article, "public officer" means any individual who holds, receives, disburses, or is required by law to keep any account of public funds or other funds for which the individual is accountable by virtue of the individual's public office.

(e) As used in this article, "entity" means any provider of goods, services, or other benefits that is:

- (1) maintained in whole or in part at public expense; or
- (2) supported in whole or in part by appropriations or public funds or by taxation.

The term does not include the state or a municipality (as defined in this section).

(f) As used in this article, a "public hospital" means either of the following:

(1) An institution licensed under IC 16-21 and which is owned by the state or an agency of the state or one which is a municipal corporation. A hospital is a municipal corporation if its governing board members are appointed by elected officials of a municipality.

(2) A state institution (as defined in IC 12-7-2-184).

(Formerly: Acts 1909, c.55, s.17.) As amended by Acts 1980, P.L.30, SEC.12; P.L.3-1986, SEC.14; P.L.2-1992, SEC.52; P.L.2-1993,

SEC.44.

IC 5-11-1-17

Repealed

(Repealed by Acts 1978, P.L.2, SEC.521.)

IC 5-11-1-18

Examinations without notice; disclosure; offense

Sec. 18. All examinations under this chapter shall be made without notice to the officers whose accounts are to be examined, and without notice to any clerk, deputy, employee, or other person employed in or connected with the office or the business of such an officer. A person who recklessly communicates knowledge of any proposed examination of any public account to the officer in charge of the account or to any other unauthorized person commits a Class B misdemeanor.

(Formerly: Acts 1909, c.55, s.19.) As amended by Acts 1978, P.L.2, SEC.509.

IC 5-11-1-19

Copyrighting uniform bookkeeping system; purchase of public office supplies

Sec. 19. No system for uniform bookkeeping or any book, record, or form which may be adopted after April 5, 1909, shall be copyrighted unless it shall be deemed expedient by the governor that a copyright be procured in the name of the state, and if any such copyright be procured, the acceptance by the state or by any municipality of any bid for printed supplies of any sort shall operate as a license from

the state to the successful bidder to manufacture any such copyrighted books, records, or forms included in such bid for public use without payment of royalty. All public books, records, and stationery used in the offices for which examination is provided in this chapter shall be purchased by the state, municipality, or institution after the manner provided by law.

(Formerly: Acts 1909, c.55, s.20.) As amended by P.L.25-1986, SEC.36.

IC 5-11-1-20

Repealed

(Repealed by Acts 1980, P.L.30, SEC.19.)

IC 5-11-1-21

Mandatory adoption of uniform system; refusal to adopt or failure to use; offense; penalty

Sec. 21. All public officers shall adopt and use the books, forms, records, and systems of accounting and reporting adopted by the state board of accounts, when directed so to do by the board, and all forms, books, and records shall be purchased by those officers in the manner provided by law. An officer who refuses to provide such books, forms, or records, fails to use them, or fails to keep the

accounts of his office as directed by the board commits a Class C infraction and forfeits his office.

(Formerly: Acts 1909, c.55, s.22.) As amended by Acts 1978, P.L.2, SEC.510.

IC 5-11-1-22

Existing duties; effect of chapter

Sec. 22. The provisions of this chapter shall not be construed to relieve any officer of any duties required by law of him on April 5, 1909, with relation to the auditing of public accounts or the disbursement of public funds, but the provisions of this chapter shall be construed to be supplemental to all provisions of law existing on April 5, 1909, safeguarding the care and disbursement of public funds; and provided further, that the provisions of this chapter shall not be construed to limit or curtail the power of the governor of the state under laws existing on April 5, 1909, to make examination or investigation of any public office or to require reports therefrom.

(Formerly: Acts 1909, c.55, s.23.) As amended by P.L.25-1986, SEC.37.

IC 5-11-1-23

Repealed

(Repealed by P.L.5-1988, SEC.35.)

IC 5-11-1-24

Uniform compliance guidelines for examinations and reports

Sec. 24. (a) The state board of accounts shall establish in writing uniform compliance guidelines for the examinations and reports required by this chapter. The uniform compliance guidelines must include the standards that an entity must observe to avoid a finding that is critical of the entity for a reason other than the entity's failure to comply with a specific law.

(b) The state board of accounts may not establish guidelines for the auditing of an entity that are inconsistent with any federal audit guidelines that govern the entity.

(c) The state board of accounts must distribute the uniform compliance guidelines to each entity that the state board of accounts may audit.

(d) If the state board of accounts engages or authorizes the engagement of a private examiner to perform an examination under this chapter, the examination and report must comply with the uniform compliance guidelines established under subsection (a). If a person subject to examination under this chapter engages a private examiner, the contract with the private examiner must require the examination and report to comply with the uniform compliance guidelines established under subsection (a).

(e) The state or a municipality may not request proposals for performing examinations of an entity that is subject to examination under this chapter unless the request for proposals has been submitted to and approved by the state board of accounts.

(f) The state or a municipality may not enter into a contract with an entity subject to examination under this chapter if the contract does not permit the examinations and require the reports prescribed by this chapter.

As added by P.L.3-1986, SEC.15. Amended by P.L.39-1996, SEC.4.

IC 5-11-1-25

Annual examinations; biennial examinations

Sec. 25. (a) Examinations under this chapter shall be conducted annually for the following:

- (1) The state.
- (2) Cities.
- (3) Counties.
- (4) Towns with a population greater than five thousand (5,000).
- (5) Public hospitals.

(b) Subject to section 9 of this chapter, examinations under this chapter shall be conducted biennially for:

- (1) municipalities; and
- (2) entities;

that are not listed in subsection (a).

As added by P.L.3-1986, SEC.16. Amended by P.L.2-1991, SEC.27.

IC 5-11-1-26

Examination reports; requisites; powers of board

Sec. 26. (a) If a state office, municipality, or other entity has authority to contract for the construction, reconstruction, alteration, repair, improvement, or maintenance of a public work, the state board of accounts shall include in each examination report concerning the state office, municipality, or entity:

- (1) an opinion concerning whether the state office, municipality, or entity has complied with IC 5-

16-8; and

(2) a brief description of each instance in which the state office, municipality, or entity has exercised its authority under IC 5-16-8-2(b) or IC 5-16-8-4.

(b) The state board of accounts may exercise any of its powers under this chapter concerning public accounts to carry out this section, including the power to require a uniform system of accounting or the use of forms prescribed by the state board of accounts.

As added by P.L.63-1987, SEC.1.

**UNIFORM COMPLIANCE
GUIDELINES FOR EXAMINATION
OF ENTITIES RECEIVING FINANCIAL
ASSISTANCE FROM GOVERNMENTAL SOURCES**



STATE BOARD OF ACCOUNTS
302 West Washington Street
4th Floor, Room E418
Indianapolis, Indiana 46204-2765

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TABLE OF CONTENTS

- A. Entities Receiving Financial Assistance
- B. Providers of Financial Assistance
- C. Overview of the Audit Process
- D. Audit Coordination and Administration
- E. Auditor Evaluation and Selection
- F. Contract Approval Process
- G. Guidelines for Audits
- H. Audit Review and Acceptance

INTRODUCTION

On September 1, 1986, the State Board of Accounts became responsible for establishing Uniform Compliance Guidelines for the examination of government funded entities. Shortly before the end of that year, our first issue entitled, Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources was released. The Guidelines have been reissued several times, and in 1999 a memorandum was sent to all Independent Public Accountants (IPAs) regarding Public Law 50, 1999.

Due to the changes brought on by Public Law 50, 1999, we are reissuing our Guidelines, effective for calendar year 2002, and fiscal years ending thereafter.

Those of you familiar with previous issues realize the central role played by the State Board of Accounts in the audit of public funds disbursed by nongovernmental entities. Through the annual reporting process and our involvement in approving audit contracts with independent public accountants, we have attempted to ensure entities subject to federal or state audit requirements, have met these requirements as efficiently and inexpensively as possible.

Reports on internal control and compliance in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States (as revised) are no longer required of entities that do not receive federal funds or whose federal funds expended falls below the Single Audit threshold in effect for the audit period. In these instances an audit performed in accordance with generally accepted auditing standards (GAAS) will satisfy the State audit requirement under Indiana Code (IC) 5-11-1-9. Funding agencies should be contacted to ensure that this type of audit also satisfies their requirements. All reports are required to contain a schedule of grant activity or a listing of all federal, state and local grants as detailed on page G-3. In addition, a copy of any separate communication to the entity's management such as a management letter needs to be sent to our office along with the report.

It has, and will continue to be our policy, that one and only one appropriate audit need ever be performed of any entity receiving government financial assistance. It is, therefore, imperative that entities, their funding agencies, and their independent auditors exercise diligence in determining applicable audit requirements, prior to commencing the audit process. Through adherence to our Guidelines, and with the cooperation of all parties involved, one audit can and will satisfy the needs of everyone.

We would like to thank the entities, funding agencies, and IPAs for the cooperation and assistance they have provided during the past sixteen years. We hope our fifth issue of the Guidelines will assist you in successfully addressing your responsibilities.

Charles Johnson III, C.P.A.
State Examiner

ENTITIES RECEIVING FINANCIAL ASSISTANCE

Entities are defined as providers of goods, services, or other benefits maintained in whole or in part at public expense, or supported in whole or in part by appropriations, public funds or taxation. The definition does not include agencies of the state, Indiana local government, or quasi-government agencies, but does include for-profit and not-for-profit corporations, unincorporated associations, organizations, and individuals.

Entities are nongovernmental organizations, many of whom conduct their business as not-for-profit corporations. By contract or other form of agreement entities provide a service or benefit to the public on behalf of government. Since 1986, more than 2000 entities in more than 30 distinct categories have been identified that are subject to the audit and reporting requirements of IC 5-11-1 et. seq.

As distinctly different as many of these organizations are from each other, they share similarities in their relationship with government. All entities receive financial assistance from the State of Indiana or Indiana local government. The assistance received is in the form of grants, subsidies, or contributions, and is evidenced by an outflow of funds from a governmental agency.

In addition to receiving financial assistance, entities share a commonality of purpose with their government providers. The relationship between the entity and provider are seldom "arms length" and many times appear to be more like a partnership or joint venture, rather than an arrangement between independent organizations participating as vendor/vendees. The relationship may or may not be evidenced by a written agreement. Usually the agreement, whether in writing or not, specifies a lump-sum, or flat amount of assistance to be provided in return for services that cannot be easily measured or defined. In most cases, each party to the agreement is heavily dependent on the other for the success and continuation of the program or objective.

Since 1986, considerable confusion has existed regarding the "purchase of service" (procurement) vs. "financial assistance" (grants) issue. During this time the State Board of Accounts has attempted to provide as much clarification and guidance as possible. Our efforts though, have been hampered by inconsistency in views held by federal funding agencies. As a result, our view regarding this issue is limited to **nonfederal funding** provided by state and Indiana local government.

We believe nonfederal funding arrangements that meet **all** of the following criteria, should be viewed as a "purchase of service," and not "financial assistance":

1. A contract for services exists between the provider and recipient.
2. The contract stipulates a predetermined amount to be provided, per unit of service performed.
3. Claims for payment are submitted by the recipient after the service is performed, with sufficient documentation to evidence the units of service provided.
4. The total amount provided during the contract period is not subject to adjustment due to variances between a recipient's estimated and actual cost of providing the service.

Although our views regarding this issue do not limit or restrain state and local government providers from requesting independent audits of these contracts, we believe our responsibility under IC 5-11-1 can be adequately addressed during our audits of the government providers.

Organizations participating in **nonfederal** "purchase of service" arrangements (only) are **not** entities and, therefore, **not** subject to the audit and reporting requirements of IC 5-11-1. Organizations receiving federal funding through state or local government may or may not be recipients of "financial assistance." This determination can only be made by the respective federal agency provider. Recipients of federal pass-through dollars, defined as financial assistance by the federal provider, **are** entities subject to IC 5-11-1 et. seq. Due to the complexity of this issue, we caution all organizations to confirm their status regarding IC 5-11-1 with government providers, prior to arranging for any type of independent audit.

ENTITIES RECEIVING FINANCIAL ASSISTANCE
(Continued)

Prior to September 1, 1986, entities receiving state or local government assistance were not subject to independent audits unless required by the provider of funds or due to internal organizational policy. Those entities receiving federal financial assistance directly from the U.S. Treasury or as a pass-through from a state or local government were, and are presently subject to federal audit requirements (OMB Circular A-133). In addition, as of 1986, all entities receiving financial assistance from state and local government, involving federal, state and local dollars, are now subject to audit by state law.

IC 5-11-1-9 requires an organization-wide audit of an entity when the public funds disbursed by that organization are equal to or greater than 50% of their total disbursements for the period. The scope of the audit is limited to the use of the public funds received when the public funds disbursed are less than 50%.

Entities whose public fund disbursements are less than 50% of their total, and entities incorporated as not-for-profit corporations whose public fund disbursements are equal to or greater than 50%, but less than \$100,000, qualify for waiver of these audit requirements. Please note that for fiscal years ending prior to July 1, 1999, these thresholds were 50% and \$60,000, respectively. The desire for waiver is assumed by the State Board of Accounts, and will be granted if the State Examiner, through other means, can determine the disbursement of public funds was made for the purpose intended.

A waiver granted by the State Examiner applies only to the audit required by IC 5-11-1-9. It does not waive any other audits that might be required by Federal OMB Circular A-133 or contractual agreements with grantor agencies. Therefore, it is possible that an entity receiving a waiver from the State Board of Accounts will still be required to have an audit performed under A-133.

OMB Circular A-133 was revised during 1996. One of the revisions raised the threshold for requiring an entity to have an audit from \$25,000 in federal receipts to \$300,000 in federal expenditures during any year audited. This revision applies to audits of fiscal years beginning after June 30, 1996. The dollar threshold under IC 5-11-1-9 is currently \$100,000. Because of this, there will be entities expending less than \$300,000 in federal financial assistance who are exempt from Federal audit requirements, but are required to have an audit under the Indiana Code. In these instances, an audit made in accordance with generally accepted auditing standards (GAAS) will suffice, as long as this is acceptable to all funding agencies. Entities should contact their funding agencies to ensure a GAAS audit is acceptable.

Entities are required by IC 5-11-1-4 to file an Entity Annual Report with the State Board of Accounts annually. The Report (Form E-1) is due within 30 days of the entity's year-end, and requests unaudited (cash or accrual basis) information regarding the source and use of financial assistance provided by government funding agencies. The Report is available from the State Board of Accounts, and automatically mailed annually to each entity after their initial year of filing. Even entities typically receiving waivers of the audit requirements are required to file the Form E-1 each year.

PROVIDERS OF FINANCIAL ASSISTANCE

Many state and local government agencies and nonprofit organizations provide financial assistance in the form of grants or subsidies to private, nongovernmental organizations. These organizations, in return, utilize these public funds to provide goods, services, or other benefits of a governmental nature for the public benefit.

State and local governments, as well as nonprofit entities that receive federal awards, are subject to the provisions of the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996. The purpose of this act is to:

1. promote sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities;
2. establish uniform requirements for audits of federal awards administered by nonfederal entities;
3. promote the efficient and effective use of audit resources;
4. reduce burdens on state and local governments, Indian tribes, and nonprofit organizations; and
5. ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done in accordance with this act.

The Single Audit Act, as revised by the Single Audit Act Amendment of 1996, requires a single, organization-wide audit of state and local governments and nonprofit organizations that expend \$300,000 or more in federal awards. This revision is effective for audits of fiscal years beginning after June 30, 1996. The resulting OMB Circular A-133 established audit and reporting requirements for governmental entities and nonprofit organizations receiving and spending federal awards

OMB Circular A-133 also addresses pass-through entity responsibilities of nongovernment entities and state and local governments providing federal pass-through awards to government and nongovernment subrecipients. A pass-through entity shall perform the following for the federal awards it makes:

1. Identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R & D, and name of federal agency.
2. Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
3. Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
4. Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

PROVIDERS OF FINANCIAL ASSISTANCE
(Continued)

6. Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
7. Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with the Circular.

As of September 1, 1986, Indiana Law (IC 5-11-1-9) requires the audit of all financial assistance provided by, or passed through, state and local government agencies, to nongovernment organizations. Oversight responsibility for these audits has been delegated to the State Board of Accounts. State and local government providers of financial assistance to nongovernmental organizations are required to include wording in their contracts that allow for audits by our department and require compliance with the annual reporting requirement (Form E-1) discussed elsewhere in this guide.

State and local government providers are also required to assist recipients and subrecipients, when requested, in determining their audit requirements. In addition, the State Board of Accounts will review and comment on state and local government monitoring of nonfederal funding provided to these organizations. It is the responsibility of state and local government agencies to inform these organizations of any federal funds being passed through.

Indiana state and local government agencies are also subject to audit by the State Board of Accounts. We are the State Clearinghouse for the filing of all A-133 audit reports issued for these agencies. A-133 audits conducted by the State Board of Accounts are accepted by all federal cognizant agencies.

Effective for periods beginning after June 30, 1996, reports for audits performed in accordance with Circular A-133 will be submitted to the federal clearinghouse designated by OMB. If requested, one additional copy of the audit report must be submitted to the State Board of Accounts.

OVERVIEW OF THE AUDIT PROCESS

Our involvement in the entity audit process is triggered primarily by the filing of an Entity Annual Report (Form E-1). Based on the financial information reported, we advise the entity if an audit, in accordance with these guidelines is required, or if they qualify for a waiver of this requirement. This notification is transmitted within two weeks of our receipt of the Form E-1. Although we realize many entities begin arranging for their audit prior to their year-end, it is impossible for us to transmit our notification prior to reviewing the Form E-1.

Once an entity is notified of their audit requirement, they should confirm with their funding agencies the type of audit required, and begin the process of evaluating and selecting an auditor.

After the entity has selected an auditor, and the auditor has confirmed the type of audit required, two copies of the contract, or engagement letter, should be forwarded to the State Board of Accounts for review and approval. Upon return of the approved contract, the audit should begin.

Upon completion of field work, the auditor should advise the entity and the State Board of Accounts of the date, time and location of the entity's exit conference. Upon completion of the audit, copies of the report should be provided to the entity, all funding agencies and the State Board of Accounts. If additional comments have been provided to the entity in a separate communication such as a management letter, a copy of this should be sent with the report to the State Board of Accounts.

Upon receipt of the audit report, funding agencies will commence their review/resolution process, and the State Board of Accounts will commence the quality control review of the auditor's work.

Upon completion of the quality control review by the State Board of Accounts, the audit report is made available for public inspection by this department. In most instances, our review will be separate and distinct from the audit review/resolution process administered by a funding agency.

AUDIT COORDINATION AND ADMINISTRATION

The coordination and administration of audits of entities is somewhat complex. Audits may be initiated and administrated by the State Board of Accounts; by state or local government funding agencies; or by entities themselves. Audits may be performed by the State Board of Accounts; private examiners hired by this department; or private examiners approved by the State Board of Accounts and hired by funding agencies or entities. Audit costs are the responsibility of the entity examined.

It is unlikely that the State Board of Accounts will perform many of these audits. It is also unlikely there will be more than a few instances in which we initiate and administrate the audit process. However, coordination of these audits with the State Board of Accounts is required. We, therefore, require the submission of all entity audit contracts to us for approval, prior to signing.

The primary responsibility for ensuring the appropriateness, timeliness and completeness of an entity's audit, rests with the entity itself. However, successful completion of the audit process cannot be accomplished without the direct cooperation and assistance of funding agencies, independent auditors and the State Board of Accounts. Due to the complexity of government regulations and the uniqueness of existing arrangements and relationships between funding agencies and entities, it is imperative that entities and their auditors confirm in advance, the type and scope of audit necessary to satisfy all parties involved. This extra effort during the preliminary phase of the audit process will ensure that one and only one audit need be performed.

AUDITOR EVALUATION AND SELECTION

To perform audits in accordance with IC 5-11-1-9, the services of an Independent Public Accountant (IPA) will be required. IPAs are Certified Public Accountants (CPAs) and Public Accountants (PAs) licensed to practice public accounting in the State of Indiana.

To facilitate the engagement of an IPA, Requests For Proposals (RFPs) may be used to solicit responses from qualified independent auditors (private examiners) for professional financial and compliance auditing services. The RFP process can result in comprehensive responses that assure audit services offered are consistent with services desired. The RFP process can also provide certain assurances that competitive review and selection procedures were applied in contracting for the audit.

It is essential that RFPs for auditing services be comprehensive and cover all matters, issues, and subjects, which have a bearing on the audit. Information about the entity to be audited and necessary elements of the audit requirements must be provided to independent auditors to assure clear and complete responses. Interested auditors usually respond to RFPs with a detailed audit proposal outlining the firm's qualifications, references, proposed audit work plan, and the price of doing the audit.

The RFP document should be communicated to independent auditors by any appropriate form and manner to assure open and competitive coverage. A public notice may or may not be utilized. Also, other methods of communicating requests for auditing services may be desirable, such as contact with the State CPA Society or the local chapter. Invitation for bid listings in newspapers are a commonly used public notice.

The notice of proposal (or letter of transmittal) to prospective respondents should briefly summarize all important information regarding the RFP. It may include:

1. Name and address of Government or entity issuing the RFP.
2. Name, address, title and phone number of person(s) to contact regarding questions.
3. Response due date and time deadline.
4. Number of copies of response.
5. Contract period (year(s) to be audited).
6. Specify location and method of delivery of response. Specify sealed response/price requirements, if any.
7. Other stipulations and clarifications as required.
8. Name, title and signature of official who transmits the proposal.

To be considered for audit services, a respondent must:

1. Be properly licensed for public practice as a Certified Public Accountant or Public Accountant.
2. Meet applicable independence requirements of the STANDARDS FOR AUDIT OF GOVERNMENTAL ORGANIZATIONS, PROGRAMS, ACTIVITIES, AND FUNCTIONS issued by the Comptroller General of the United States (Yellow Book) or American Institute of Certified Public Accountants.

AUDITOR EVALUATION AND SELECTION
(Continued)

3. Have no record of performing substandard audit work.
4. Understand and accept the role of the State Board of Accounts in the audit process.

State agencies are required to use the RFP process if they contract for audits of entities they fund. They are required to submit the RFP to the State Board of Accounts for approval, prior to issuance. In addition, the State Board of Accounts will review the evaluation method used in selecting the successful respondent.

Local governments contracting for audits of entities they fund, and entities contracting for their own audit, are not required to issue RFPs. However, the State Board of Accounts does recommend the RFP process for anyone soliciting audit services.

CONTRACT APPROVAL PROCESS

As discussed previously, the audits of entities receiving financial assistance will be performed primarily by Independent Public Accountants authorized or designated by the State Board of Accounts.

To obtain approval for the audit, two copies of the audit contract, or engagement letter, must be submitted to the State Board of Accounts, prior to signing. During our review of the contract, we attempt to ascertain the following:

1. The Auditor selected:
 - a. Is licensed to practice public accounting in the State of Indiana.
 - b. Acknowledges awareness of governmental audit requirements (if applicable) and professional standards.
 - c. Has no record of performing substandard audits.
 - d. Understands the role of the State Board of Accounts in the audit process.
2. The Audit contemplated:
 - a. Appears appropriate in relation to the information reported on the Entity Annual Report.

Upon completion of our review, one copy of the contract will be returned to the contracting official, accompanied by our written approval or rejection. Our reason(s) for rejecting any audit contract will be stipulated in writing.

Contracts with no reference to, or acknowledgment of the responsibility of the State Board of Accounts in this process will be conditionally approved or possibly rejected. Therefore, to ensure timely approval of the contract, we recommend inclusion of the following wording:

1. The audit will be performed in accordance with guidelines established by the State Board of Accounts, and if applicable, Government Auditing Standards and OMB Circular A-133.
2. The State Board of Accounts will be notified immediately if suspected instances of fraud or abuse are discovered during the course of audit.
3. The State Board of Accounts will be notified in writing of the date, time and place of the exit conference.
4. The State Board of Accounts will receive one unbound copy of the audit report.
5. Workpapers supporting the audit report will be available for review by the State Board of Accounts.

Notice to Auditors:

The approval of your audit contract by this department is not an assertion your audit will satisfy federal funding agencies or other reporting requirements. Our approval is based on limited knowledge of your client's overall audit requirements and **is not** to be used as a substitute for thorough planning by you.

GUIDELINES FOR AUDITS

This guide is for use on audits of entities receiving governmental assistance in the form of grants, contracts and awards.

Auditing Standards to be Applied

Audits of entities must be performed in accordance with auditing standards generally accepted in the United States, commonly referred to as Generally Accepted Auditing Standards (GAAS), and the following applicable guidelines or requirements, if applicable.

Entities that receive and expend federal awards are subject to the provisions of the Single Audit Act, as amended 1996. The Single Audit Act requires the Office of Management and Budget (OMB) to prescribe policies, procedures, and guidelines necessary for its implementation. The resulting OMB Circular A-133 established audit and reporting requirements for governmental entities and not-for-profit organizations receiving and expending federal awards, and defined responsibilities and duties for federal awarding agencies and pass-through agencies and entities.

Among other things, the Single Audit Act, as amended 1996, and OMB Circular A-133 require audits of governments and not-for-profit organizations receiving and expending federal awards to be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States (as revised).

Please note: An audit done in accordance with OMB Circular A-133 satisfies the audit required by IC 5-11-1-9.

Scope of the Audit

IC 5-11-1-9 requires the complete audit of an entity when the public funds disbursed by that entity are equal to or greater than 50% of the total disbursements for the period. Disbursements are defined as cash outlays occurring during the normal course of business, but excludes the purchase of investments, bank transfers, retirement of debt incurred as a result of cash flow shortfalls, etc. In this document "complete audit" means an audit covering financial, compliance and evaluation of internal control.

The scope of the audit will be limited to the use of public funds when public funds disbursed are either less than 50% or greater than 50%, but less than \$100,000 of the entity's total disbursements, if not in conflict with federal requirements. Where federal awards are involved, auditors are advised to comply with the provisions of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." If the federal funds are large enough to require an organization-wide audit under this Circular, then the scope of that audit must include tests of compliance with the grant provisions of any nonfederal public funds involved. Duplication of auditing efforts should be avoided.

Limited Scope Audit

When an entity spends less than 50% or greater than 50%, but less than \$100,000 in governmental support and a limited scope audit requirement is indicated, the grantor agency must be contacted and an agreement reached regarding necessary audit procedures and reporting requirements. The agreed upon procedures should insure that tests are made as to whether funds were spent in accordance with the purposes of the grant agreement.

While certain audit procedures may be agreed upon, the auditor must evaluate appropriate internal controls established to insure compliance with grant agreements. The auditor's working papers must support the conclusions reached.

GUIDELINES FOR AUDITS
(Continued)

Compliance with Legal and Regulatory Requirements

Nonprofit entities receiving financial assistance from the federal government are subject to the administrative requirements of OMB Circulars A-133 and A-110, and the cost principles of OMB Circular A-122. Three of the most important requirements are recipient eligibility, coverage of services and matching requirements. If funds are used to provide services to ineligible recipients and/or to provide services not included in the grant award, or if the matching requirements are not met, the total amount of the award may have to be returned to the grantor agency.

Entities receiving financial assistance from state or local governments are subject to the following general requirements:

Existence of contracts with grantor agencies for all assistance received.

Retention of financial records, supporting documents, statistical records and all other records pertinent to the agreements for a period of at least three years.

Maintaining a financial management system that provides:

- a. Accurate, current and complete disclosure of the financial results of each government sponsored project or program.
- b. Records that adequately identify the source and application of funds for government sponsored activities. Records shall contain information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays and income.
- c. Effective control over and accountability for all funds, property and other assets.
- d. Procedures for determining the reasonableness, allowability and allocability of costs in accordance with the provisions of the applicable cost principles and the terms of the grant or other agreement.
- e. Accounting records that are supported by source documentation.
- f. Compliance with annual reporting requirements of the Secretary of State and the State Board of Accounts.
- g. Compliance with rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies.
- h. Adequate fidelity bonding and insurance coverage if required by the funding agency.

The above are not intended to represent the only applicable regulations since the entity may be regulated by certain state statutes, its own bylaws and by provisions within the agreements, all of which may require testing.

GUIDELINES FOR AUDITS
(Continued)

Report

The report must contain the general purpose financial statements of the entity and the auditor's opinion thereon. In addition, the report must contain a schedule of all federal, state and local grant awards, showing the award balances at year-end as well as the changes in award balances during the period. If the entity receives only nonfederal (state or local) governmental grants, this information may be presented in a note to the financial statements, rather than as a separate schedule.

If applicable, the report must also contain any other reports, schedules, or opinions required by Government Auditing Standards and/or OMB Circular A-133, and any other reports, schedules or opinions required by these guidelines, the grantor agencies, or the entity itself. The report must contain a description of any reportable conditions, instances of noncompliance with the grant agreements, errors or irregularities, and any other items, which in the auditor's judgment, are to be reported in the audit report. Recommendations for corrective action must be included with any item noted.

Fraud, Abuse or Illegal Acts

If the auditor discovers or suspects fraud, abuse or illegal acts during the audit of the entity, the State Board of Accounts must be notified immediately.

Audit Frequency and Completion

Audit frequency of entities is subject to establishment or approval by the State Board of Accounts on an annual or biennial basis in accordance with IC 5-11-1-25. Audits are to be completed and the reports issued within nine months after the close of the audit period. Any requests for an extension of time must be in writing to the State Board of Accounts.

Audit Report Distribution

Auditors are required to file one unbound copy of the audit report with the State Board of Accounts, in addition to other report filing requirements they are subject to.

AUDIT REVIEW AND ACCEPTANCE

Due to our oversight responsibility for audits performed in accordance with IC 5-11-1-9, a quality control review of an auditor's work is conducted prior to issuance of audit reports by the State Board of Accounts.

The primary purpose of a review is to determine the auditor's degree of compliance with appropriate professional standards. A review may be performed "on-site" at the auditor's place of business by department staff. The review is generally completed within one day and should require minimal assistance from the auditor. Upon completion, an exit conference is held where the results of the review are discussed.

Quality control reviews are conducted at times mutually agreeable to both the State Board of Accounts and the Independent Public Accountant. Scheduling flexibility is available, in most cases, to allow for seasonal demands of the profession. Unnecessary delays or demonstrated noncooperation by an auditor will result in their removal from our list of approved auditors.

We are required by statute to charge an entity for the cost of this review. The cost will normally range between \$250 - \$500, and is above and beyond any audit fees due the auditor. An entity should not receive an additional billing from the auditor in connection with this review. Auditors desiring compensation for the minimal time expended during a review should incorporate this charge within their contract for audit services.

Due to limited resources of many entities, quality control reviews are not conducted on all audits performed by IPAs. Once we have satisfied ourselves that an auditor is following appropriate professional standards, it is not necessary to review all audits performed by this auditor in accordance with IC 5-11-1-9.

Once the quality of the auditor's work has been ascertained, a desk review of the audit report is conducted by central office staff. During this review, attention is focused on the appropriateness and completeness of the report presentation. The financial statement opinion and reports on internal control and compliance, if required, are reviewed in detail. Questioned costs and audit findings are also reviewed for determination of additional work required by our department, if any.

Upon completion of our review, the audit report is made available for public inspection by the State Board of Accounts. The report may be made available before or after completion of a funding agency's audit resolution process.

