

APPENDIX A

NOTIFICATION OF ENGAGEMENT OF INDEPENDENT AUDITOR

**CITY OF PHILADELPHIA SUBRECIPIENT AUDIT
NOTIFICATION OF ENGAGEMENT OF INDEPENDENT AUDITOR**

ORGANIZATION:

Organization Name: _____

Federal E.I. No. _____

Address: _____

Contact Individual and Title: _____

Telephone No.(_____) _____ Agency Fiscal Year: _____

City of Philadelphia Department Funding from (indicate by X in space below):

___ Commerce, ___ Human Services, ___ MOCS, ___ OHCD, ___ OESS, ___ Health

Signature: _____ Title: _____

Date: _____

LICENSED INDEPENDENT PUBLIC ACCOUNTANT:

Firm Name: _____

Address: _____

Telephone No.(_____) _____ Fax No.(_____) _____

Currently Licensed to Practice in the Commonwealth of Pennsylvania:

Firm License No. _____ Expiration Date: _____

Anticipated Completion Date of Audit: _____

Contact Individual and Title: _____

Period of Last Quality Review _____ (ATTACH COPY)

Certification: I certify that our firm is independent of the above named provider organization as defined by *Rule of Conduct 101* of the *Code of Professional Ethics of the American Institute of Certified Public Accountants (AICPA)*, and that we have not been debarred from performing audits by any Federal or State Agency or by any City of Philadelphia Government Department. In addition, the audit will be performed in accordance with *AICPA Auditing Standards, Government Auditing Standards*, and the *City of Philadelphia Subrecipient Audit Guide*.

Signature: _____ Title: _____

Date: _____

(For Use by City of Philadelphia)
Date Received _____ Audit Control No. _____

Date Verified _____ Verified By _____

Licensed _____

APPENDIX B

OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

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

(Accompanying Federal Register Materials -- Audits of States, Local Governments, and Non-Profit Organizations June 30, 1997)

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.

Franklin D. Raines

Director

Attachment

PART__ --AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

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

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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).

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 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 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. Non-Federal entities that expend less than \$300,000 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 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 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. 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.) 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 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

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.

Billing Code 3110-01-P

APPENDIX C

CITY OF PHILADELPHIA

CONTRACT COST PRINCIPLES AND GUIDELINES

Contract Cost Principles and Guidelines

Introduction

The City of Philadelphia Contract Cost Principles and Guidelines is designed to serve as a manual for City departments entering into professional service contracts, contracts which are not competitively bid through the procurement process but are either awarded directly by the department or competitively solicited and awarded using a request for proposal (**RFP**). Professional services are defined as the labor, time and effort provided by particular professionals or organizations such as legal, engineering or accounting firms or health and human services providers to deliver a specific product or service sought by the City.

The manual begins with a General Information and Definition chapter which contains some basic definitions, defines different types of contracts as well as the meaning of the term “service unit costs”.

The Cost Principles and Guidelines chapter discusses general guidelines for determining what types of costs should be allowable and establishes standards for the allowability of individual cost items such as entertainment, fund raising, and travel. Departmental staff involved in contracting should find this section an especially useful guide. This chapter also includes definitions of direct and indirect cost and explains two methods for allocating indirect costs.

The Standard Budget Format chapter explains how to use the standard contract budget format shown in the appendices. The contract budget format was developed to serve as a model for the type of cost information that should be requested from contractors. This chapter also discusses how to calculate service unit cost.

For a listing of what is contained in the other sections of this manual, please consult the index on the next two pages.

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General Information and Definitions

Scope of Service

A professional services contract must clearly state the work to be performed or the results to be achieved such as reports, documents, task completed, units of service to be provided, or other forms of work products. The work products or performance expectations must be clearly defined by the appropriate City department contracting officer.

Each contract with measurable deliverables should include a timetable and implementation schedule for the work to be performed. The schedule should include benchmarks and due dates. Contracts providing services to a client population (where there is no clear deliverable) should specify percentages, outcomes, success rates, or any other element(s) that the contracting department will use to measure the contractor's effectiveness.

Types of Contracts

Fixed price contracts

Place responsibility on the contractor to perform the defined scope of services at a price, or at an hourly or daily rate, which is established in advance and which cannot be adjusted upward after the contract begins even if the contractor experiences changes in its cost structure which increase the Contractor's expenses. There are at least four types of fixed price contracts: a) fixed fee, b) hourly, c) per diem, and d) capitation. In addition each of these may also include a provision for reimbursement of out-of-pocket expenses as referenced on page 3. Hourly, capitation, and per diem contracts are also referred to as "fee-for-service" contracts.

Fixed price contracts, other than per diem contracts where the rate is based on cost reimbursement, will not require a budgetary submission showing a line-item breakdown of all costs composing the fixed price or lump sum amount. These contracts will require a budget showing the calculation of the contract amount; e.g., hourly rates for contract employees and hours to be spent on the contract project. In addition, departments may determine if they will require a cost allocation plan for the indirect costs subsumed in the hourly, per diem or capitation rate or lump sum charge. **If the charge for indirect costs is a separate item in the contract cost, then the contractor must submit a cost allocation plan or letter of assurance from CPA firm accepting the cost allocation plan methodology.** The reimbursement of out-of-pocket costs which are not included in the fixed price is governed by the allowability guidelines in the Cost Principles and Guidelines.

All departments entering into fixed price contracts (fixed fee, hourly, per diem or capitation) must prepare an annual plan by April 30 explaining the department's procedures for determining the appropriateness of the cost of each type of fixed price contract. Departments must describe the steps taken to ensure that the City is paying a fair and reasonable amount for the services performed. Verification of price may be accomplished by ensuring adequate competition (both formal and informal), using a comparison of prices for similar projects, ensuring conformance with market rates, or performing an in-house analysis of the project to establish an estimate of cost.

Each department's plan must list the types of fixed price contracts into which the department anticipates entering in the upcoming fiscal year and the anticipated number of each type. Each **type** of fixed price contract should have its own plan for evaluation. These plans may differ by division or unit in the department and, in such cases, each division or unit should submit its own plan. The plan(s) must be maintained on file in the department and be approved by the department Commissioner or agency head, or designee.

a) Fixed fee contracts

Establish a fixed price for the work to be provided, which will not change regardless of how much time is spent by the contractor to complete the job. Contracts of this type should be employed when the quantity of services to be provided is known beforehand and the services are clearly defined in terms of products to be delivered ("deliverables"), such as preparation of reports, installation of new computer systems, or design of buildings.

b) Hourly contracts

Establish in advance an hourly rate for the services to be provided. The total amount ultimately paid to the contractor will, therefore, depend on the number of hours worked. For Example, if a City department retains a data processing consultant to provide assistance to the City when needed throughout the year, it should use an hourly contract because it is difficult to estimate what the department's demand for those services will be in advance. Hourly contracts are also used in cases where there is a clear deliverable and the amount of hours to be worked can be reasonably estimated. In the latter case, departments may want to fix a maximum number of billable hours for the completion of the deliverable. In any event, if an hourly contract is employed, the Department, for purposes of cost control, must establish a maximum number of hours that can be billed to the City during the contract period.

c) Per diem contracts

Are used in instances where the contractor is providing service to a client population (such as the homeless or abused children) and the quantity of the services to be provided will vary depending on the needs and the number served of the client population.

The per diem is a daily rate per client served for a particular type of care. A per diem contract may cover several different types of care each with a separate daily rate.

d) Capitation contracts

Establish a fixed fee per client served. This will not change regardless of the amount of services provided to the client (such as the number of days of treatment). However, the ultimate value of the capitation contract will vary depending on the number of clients served. An example of a capitation contract is the contract between the City and health maintenance organizations (HMOs) to provide health services to City employees. The monthly cost per employee is fixed in advance,

but the total value of the contract will depend on the number of employees enrolled throughout the year.

e) Any of the foregoing contracts

May combine a cost reimbursement feature in the fixed fee arrangements.

This type of contract allows for the reimbursement of allowable out-of-pocket costs in addition to the professional services which are recognized on an hourly or fixed fee basis. Out-of-pocket costs which are eligible for reimbursement are those costs which are not included in the hourly or fixed fee and which are directly and specifically related to the provision of the services provided under the contract. Examples of this type of cost include communications expenses (including messenger service), copying and printing expenses, and specialized materials and supplies. Departments may want to restrict the types of allowable out-of-pocket expenses as well as the maximum amount reimbursable.

Cost Reimbursement Contracts

Provide for payment of allowable costs incurred in contract performance pursuant to an approved line-item budget. This type of contract establishes at the outset an estimated cost of performance of the contract and a dollar ceiling which the contractor may not exceed (except at the contractor's own expense). In some cost reimbursement contracts, the contract provides for payment to the contractor of an agreed fixed fee or profit in addition to reimbursement of allowable incurred costs. This type of contract, which is a variation of a cost reimbursement contract, is referred to as a **Cost Plus Fixed Fee Contract**.

The following provisions shall apply to cost reimbursement contracts and to the portion of any fixed price contract which contemplates reimbursement for out-of-pocket costs:

Costs may be reimbursed only if they are recognized as allowable and allocable under Cost Principles and Guidelines chapter.

The contractor may make no change to its budget that increases the total contract amount or that reduces the level of services to be provided. Any movement of funds from personnel into another line item, no matter the amount, must receive prior written approval. Departments may require more stringent notification and approval guidelines for the movement of funds within a budget if desired or if required by non-City funding sources. All changes must be reflected in a revised budget submitted within 10 days of the end of each fiscal quarter.

Contingency Fee Contracts

Establish an arrangement whereby a contractor collects revenue or reduces costs on the City's behalf and is paid a percentage of the revenue collected or of the amount of cost reduction. The final value of the contract will depend upon the total amount of revenue collected or the total amount of cost reduction during the term of the contract.

A contingency fee contract should only be used (a) after the contracting department completes a cost/benefit analysis demonstrating that a contingency fee contract will be more advantageous to the City than a fixed contract or (b) when the risk to the contractor is sufficiently high to render a fixed fee contract inappropriate.

Service Unit Cost

Cost accountability is an essential element of compliance with the guidelines concerning professional service contracts for the City of Philadelphia. The City desires to know not only the total cost of a program or contract but how many clients or citizens are served by the contract and what the cost is per client or citizen.

In the case of contracts which are costed at an hourly or per diem rate, this calculation is a relatively easy process. In the case of contracts which call for the delivery of a set job or report, the cost per unit is simply the cost per job or per report.

However, contracts in which compensation is based on a program budget may present a problem in determining a service unit cost since the unit of service may not be clearly defined. It is the intent of the City to quantify these costs wherever possible. If the contract objective or outcome is not quantifiable, some measure of service level and the effectiveness of service delivery must be identified. An example of a measurable, but not quantifiable, service objective may be “the percentage decrease in the rate of new AIDS cases within a target population” for a contract for AIDS Community Outreach and Education.

If more than one objective or end product is required as part of the terms of the contract, then each of these objectives must be stated separately in measurable terms. Each service objective or outcome must be clearly defined so that the City can properly evaluate the effectiveness of program service delivery.

It is important to note that the cost per service unit is only one of a number of factors that the City will use to evaluate the effectiveness of a program. However, clearly defining the stated objective of the contract and maintaining accurate cost records by service objectives will allow the City to make an informed judgment as to the worthiness and credibility of a contract. A discussion of how to calculate service unit costs, together with examples, is included in the Standard Budget Format chapter.

Cost Principles and Guidelines

This section will define direct costs and indirect costs and will provide a method for calculating an indirect cost rate and allocating indirect costs among several contracts. Included are general guidelines for determining whether costs are allowable and for determining whether costs are *reasonable and necessary*. The City's Cost Principles and Guidelines do not relieve the contractor of responsibility for following regulations and restrictions imposed by the funding source for contracts that are funded by a non-City source. **Whenever a non-city funding source's regulation or requirements are more restrictive than the City's Contract Cost Principles and Guidelines, the non-city funding sources regulations and requirements must prevail.** This section also establishes standards for determining the allowability of specific cost items which are usually included in a contract.

Direct Costs

Direct costs are those costs that can be specifically identified with a particular project or contract and are to be charged directly to the contract.

An example of a direct cost is the salaries and fringe benefits of personnel which can be directly attributed to a particular contract. However, salaries and fringe benefits may not always be treated as a direct cost. Salaries and benefits of executive officers and administrative employees may be considered as an indirect cost in cases where no system exists for tracking how much of their time is spent on each of the organization's contracts.

Any cost incurred that has been treated as an indirect cost cannot also be included as a direct cost. All costs specifically identified with other contracts of the organization are direct costs of those projects and may not be charged to the contract in question either directly or indirectly.

Indirect Costs

Indirect costs are any costs which are not directly identified with a single contract but which are allocated among multiple contracts or funding sources.

Indirect costs must not duplicate any cost separately identified in the line-item budget as a direct cost. Indirect costs must be fully described and documented by a cost allocation plan. A letter of assurance from a CPA firm accepting the contractor's cost allocation plan methodology may be substituted for the submission of the plan.

This letter must be submitted at the time of the contract budget submission. However, the contracting department may require the submission of the contractor's indirect cost allocation plan in addition to the CPA firm's letter of assurance. Both the direct costs and indirect costs shall exclude capital expenditures except as referenced in Maintenance, Custodial and Repair Costs, and, Rental Costs.

An example of an indirect cost is general administrative expense. If an organization administers several contracts, it can allocate general administrative expenses among the different contracts or funding sources proportionately. The percentage allocated to each contract or funding source will ultimately depend on the method of allocation used.

Below is a discussion of two methods for allocating indirect costs: 1) the simplified allocation method and 2) the multiple allocation base method.

Simplified Allocation Method

Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (1) separating the organization's total costs for the base period as either direct or indirect and (2) dividing the total allowable indirect costs by an equitable distribution base, which

consists of salaries and fringe benefits. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual contracts. The rate should be expressed as the percentage of the total amount of allowable indirect costs to the base.

Some non-profit organizations treat all costs as direct costs except general administrative expenses. These organizations generally separate their costs into two basic categories: (1) direct functions and (2) general administrative expenses. Joint costs such as rental costs, operation and maintenance of facilities, telephone expenses and the like are prorated individually as a direct cost to each category and to each contract, or other activity using a base most appropriate to the particular cost being prorated.

Under this method, indirect costs consist exclusively of general administrative expenses.

The following is an example of a simplified allocation method. In this case indirect costs are distributed based on the percentage that contract salary and fringe benefits are of the total salaries and fringe benefits of the agency.

Example 1: Base = Salaries and Fringe Benefits

Total agency salaries and fringe benefits:	\$200,000
Contract salary and fringe benefits:	50,000
Contract indirect cost rate (b/a):	25%
Total agency indirect costs	75,000
Contract indirect cost (c x d):	\$18,750

Multiple Allocation Base Method

Where an organization's indirect costs benefit its major functions in varying degrees, such costs must be accumulated into separate cost groupings. Each grouping is to be allocated individually to benefiting functions by means of a base which best measures the relative benefits. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping. When an allocation can be made by assignment of a cost grouping directly to the function benefited, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the City and the organization.

In general, any cost element or cost-related factor associated with the organization's work is potentially adaptable for use as an allocation base provided that (1) it can readily be expressed in terms of dollars or other quantitative measures and (2) it is common to the benefiting functions during the base period.

An example of a multiple allocation base for personnel expenditures could be "number of employees." An example of a base for purchasing expenditures could be "number of requisitions processed."

Listed below are examples of a multiple allocation base method. In this example the base for the personnel department is the number of employees, while the base for the purchasing department is the number of requisitions processed.

Example 1: Base = Number of Employees in Agency

a.	Total number of employees in agency:	100
b.	Number of employees assigned to City contract:	20
c.	Contract indirect cost rate (b/a):	20%
d.	Total agency cost for personnel:	\$60,000
e.	Contract indirect cost for personnel: (c x d):	\$12,000

Example 2: Base = Number of Requisitions Processed by Agency.

a.	Total number of requisition processed:	30
b.	Number of requisitions processed for City contract:	10
c.	Contract indirect cost rate (b/a):	33.3%
d.	Total Agency cost for purchasing	\$15,000

In this case the total indirect cost would be \$17,000, comprised of \$12,000 in personnel costs and \$5,000 in purchasing costs. Note that in this example the percentage for indirect purchasing costs is greater than that for indirect personnel costs. This method should be used when indirect costs vary and where there are sufficient data and reliable bases to justify the use of more than one base.

Basic Guidelines for Allowability of Costs

The cost principles and procedures in this Section shall be used to determine the allowability of incurred costs for the purpose of reimbursement of costs under the contract terms and conditions. Any deviation from these cost principles must be in accordance with the provisions in [Deviations](#).

Factors Affecting Allowability

The tests of allowability of costs under these principles are:

They must be reasonable (see #2 below for a discussion of the actors that determine “reasonableness” of costs).

They must be assigned to contract agreements under the standards and methods provided herein.

They must be accorded consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances.

They must conform to any limitations or exclusions set forth in these principles or in the contract agreement as to types or amounts of cost items.

They must be permitted under the provisions of the contract.

Reasonable Costs

A cost may be considered reasonable if the nature of the goods or services acquired and the amount involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

Whether the cost is of a type generally recognized as necessary for the operation or performance of the project or program under the terms and conditions of the contract.

The restraints or requirements imposed by such factors as generally accepted sound business practices and federal, state and City laws and regulations.

Whether the actions taken with respect to the incurrence of the cost are considered prudent and consistent with established practices and policies of the business, industry, profession or service being contracted.

Whether the cost amount is within a reasonable range of current market prices.

Whether there exist a significant deviation from established practices which may unjustifiably increase the costs of the contract.

Standards for Selected Cost Items

Listed below are selected budgetary cost items, a description of such costs, their allowability and required documentation. However, no cost item included in these Guidelines will be considered allowable unless it is specifically approved by the City in the actual terms and conditions of the contract entered into by the City and the contractor. It should be noted that each type of expense can be either direct or indirect depending on whether it can be directly associated with a particular contract.

For all cost items included in a contract, the minimum required documentation is the contractor's original invoice. Any additional supporting documentation is noted specifically within the cost category description listed below. Supporting documentation is to be maintained by the contractor on site unless the contracting department requires that it be submitted with the contractor's invoice.

Although the following list is extensive, it is not meant to be exhaustive. For cost items which are not specifically covered by the categories below, clarification and determination of allowability must be obtained in writing from the Deputy Director of Finance for Accounting and Administration.

Acquisition of Real Estate

Costs incurred for the acquisition of real estate are allowable only if approved in advance and in writing by the City, and only to the extent allowed by the Commonwealth's funding agency and the terms of any applicable grant or funding agreement and associated regulations. The City may require that the contractor refund all or a portion of the funding in the event that the contractor fails to keep the acquired property in service for non-profit uses consistent with the purpose of the funding for a period of time to be determined by the City. In this case, the City may require that the contractor execute and deliver such documents and instruments as the City may require, including, without limitation, reimbursement agreements, deed restrictions and prohibitions on junior liens or mortgages.

Advertising Costs

Advertising costs mean the cost of media services and associated costs. Media advertising includes magazines, newspapers, brochures, radio and television programs, direct mail, exhibits and the like. Advertising costs are generally unallowable unless specifically required by law or regulation or approved by the City as provided for in the terms and conditions of the contract. Advertising to recruit individuals to fill staff vacancies or for outreach purposes is allowable if approved by the City. When printed or audio/visual material is approved by the City and prepared and used for public consumption, the material must state that the material was paid for by the City of Philadelphia.

Required documentation will be the contractor's original invoice which denotes that the advertising was related to the specific project or award.

Bonding Costs

Costs of bonding required or approved by the City are allowable. In certain cases the City requires assurance against financial loss to itself or others by reason of performance or default of the contractor.

Required documentation will be copies of bond documents and premiums paid to bonding and insurance companies. Again, these expenses may be included in an indirect cost calculation, but if they are, they should not be included as a direct cost line item.

Communication Costs

Costs incurred for telephone services, local and long-distance telephone calls, telegrams, radiograms, fax transmissions, postage and the like are allowable. Required documentation will be the contractor's original invoice, supported by detail which indicates which charges relate to the specific project or award. If the detailed bills are too voluminous, a special listing should be provided which summarizes communication costs associated with the project on contract award. Any communication costs which are included in the indirect cost rate calculation cannot also be included as a direct cost line item.

Employee Compensation

Compensation for personnel costs includes wages, salaries and fringe benefits. Salaries must be supported by a detailed list of all personnel, their job classifications titles, their annual salaries, their hourly rate where applicable, the amount of time they worked on the contracted project, and the amount of time they worked on other projects. Salary costs must be supported by daily time and attendance and payroll distribution records.

Certain salary expenses such as those for administrative personnel may be included in the indirect cost calculation. If this is the case, these costs may not be included as a direct cost line item(s).

Fringe benefit costs shall be limited to the following: employer contribution to Social Security (FICA) and Medicare taxes, employer expenses for Workers' Compensation insurance, health insurance (including vision, prescription, and dental), life insurance, unemployment insurance, disability insurance, and pension costs. Costs are allowable as either a direct cost of the contract provisions or as an indirect cost.

The maximum for fringe benefits shall not exceed the percentage of salary as established annually by the Office of the Director of Finance. The instructions for determination of this percentage, including a reference table, are contained in the section, Allowable Fringe Benefits Rate Calculation.

For an assessment of the reasonableness of salaries, prevailing industry standards should be used as a guideline wherever possible.

Entertainment Costs

Costs of amusement, diversion, social activities, entertainment, ceremonials and any costs relating thereto, such as meals, lodging, rentals, transportation and gratuities are generally unallowable. Exceptions may be made when such costs are directly related to the service being delivered and when such costs are incurred for the direct benefit of the program clients or participants. Costs must be specifically justified as a direct cost and approved as a line item in the budget.

Equipment Costs

Equipment means an article of nonexpendable, tangible, personal property having a useful life of more than two years and an acquisition cost of \$500 or more per unit.

Acquisition cost means the net invoice unit price of an item of equipment including the cost of modification, attachments, accessories or auxiliary apparatus necessary to make it useable for the purpose for which it was acquired. Ancillary charges such as freight, insurance and installation may be included in the acquisition cost. **Equipment expenditures are unallowable as indirect costs.**

The full cost of the equipment is allowable if the use of the equipment is solely in support of the City contract and is included as part of the approved budget.

If an agency bills the City for the full cost of equipment, then this equipment will become the property of the City at the termination of the contract or program.

Required documentation will be the contractor's original invoice, supported by detail which indicates which charges are related to the specific project or contract. At a minimum, a physical inventory must be taken at the end of each contract period and, when required by the contracting department, be submitted with the final invoice.

Leased equipment may be charged as a direct cost when normal usage does not warrant its purchase or when renting is a less expensive option. The rental charge shall be prorated depending on the portion of usage in support of the City contract **Rental**.

If the equipment purchased by the contractor is not for the sole purpose of the City contract, then the contractor may receive compensation in the form of a use allowance. In order to apply the use allowance method, the purchase price must be divided by the useful life established for the equipment to arrive at a yearly amount. The amount must then be allocated to the City on a percentage basis in accordance with the portion of usage for that contract.

The following is an example of how to apply the use allowance:

Purchase price of copying machine:\$10,000

Useful life: 5 years

Use allowance per year: \$ 2,000

City contract as a % of total equipment use: 25%

Portion of yearly use allowance to be applied
to City contract \$ 500

Charges for use allowances must be supported by the contractor's original invoices, and adequate property records. At a minimum, a physical inventory must be taken at the end of each contract period and, when required by the contracting department, be submitted with the final invoice.

Equipment purchases are intended for use by the contractor in providing services to the City and should not be bought solely for use by City employees working in conjunction with the contractor as a mechanism to circumvent procurement regulations or City Charter provisions.

Fines and Penalties

Costs resulting from failure of the contractor to comply with federal, state and City laws and regulations are unallowable, including financial awards pursuant to arbitration, settlement or dispute resolution.

Fund Raising and Public Relations

Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

General Administrative Expense

Administrative expenses not directly attributable to the contract are allowable only as an indirect cost.

Gifts, Contributions and Donations

Gifts, contributions and donations to any individual or organization are unallowable.

Insurance Costs

Insurance includes insurance which the organization is required to carry under the terms of the contract and any other insurance which the organization maintains in connection with the general conduct of its operations. Costs of insurance required and maintained pursuant to the terms and conditions of the contract and which is maintained solely for the contract are allowable as a direct cost. All other insurance costs may only be charged as an indirect cost. Required documentation will be copies of paid premium invoices and, upon request, copies of the insurance policies themselves.

Interest Costs

Costs incurred for interest on borrowed capital are unallowable. Interest paid for funds borrowed from a lending institution or endowment fund may be considered an allowable expense in the case where funds are borrowed to meet the actual cash flow requirements of a contracted program and to the extent that the City is eligible for reimbursement from a non-City funding source. It must be documented that the actual cash flow requirements are such that obligations could not be met and that the loan was obtained at the lowest interest rate available as evidenced by quotations from three potential lending sources.

Losses Incurred Under Contracts

A loss incurred under *this* or any other contract is unallowable.

Maintenance, Custodial and Repair Costs

Normal maintenance, custodial and repair costs necessary for the upkeep of property acquired and maintained for the purpose of the program are allowable as a direct or an indirect cost. Custodial and maintenance costs for the upkeep of space may be included as part of a rental charge. If the cost of maintenance, custodial or repair services is included in the lease or rental payment, it is allowable to the extent that the additional lease or rental payment amount reflects the actual costs of the services. These services may be purchased separately, if they are offered at a lesser cost. If these services are purchased separately, documentation showing that this was the most economical method for the provision of these services must be provided. Capital costs to maintain or improve a site which is used for direct services to clients and that are reimbursable from a non-City funding source are allowable in accordance with the funding source's regulations and guidelines if prior written approval is granted by the City. Upon completion of the capital improvements, the site cannot be used for any other purpose unless prior written approval has been granted by the City.

Cost must be appropriately documented for reimbursement.

Material and Supplies Costs

Costs incurred for purchased materials and supplies directly related to the performance of the contract or for basic client care are allowable.

Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates and allowances received by the organization. Delivery charges may be included as a proper part of material cost.

Required documentation will be the contractor's original invoice indicating purchase of supplies and any other supporting packing slips, delivery tickets and receiving reports.

Memberships, Subscriptions and Professional Activity Costs

Costs for membership in civic, business, technical and professional organizations and subscriptions to civic, business technical and professional publications are generally allowable except when directly related to the program and contract performance and specifically approved by the City. Costs of meetings and conferences are generally unallowable except when directly related to program and contract performance and specifically approved by the City.

Printing

Printing costs are allowable as long as they are required in completing the assigned contract. Such costs should be treated as direct costs if they are directly associated with the project. They may be treated as indirect costs, however, if they are incurred in overall general administrative functions or are minor in total costs.

When printed materials, such as brochures, pamphlets, or informational flyers, are prepared and used for public consumption, the material must state that it was funded by the City of Philadelphia, unless pre-printed material is purchased in support of a program.

Required documentation will be the contractor's original invoice, supported by copies of invoices from the printing firm or, if the printing is done within the organization, any internal work order forms which indicate the cost incurred.

Professional Services

Professional services such as legal, accounting, auditing, architecture, engineering, medical and therapeutic services rendered by members of a particular profession who are not employees of the contractor agency are allowable when justifiable for programmatic or administrative reasons and part of the approved contract budget.

A written agreement is required and shall state the services to be provided, the rate of compensation and the method of payment. Copies of all invoices submitted and paid shall be maintained as well as time records indicating the hours worked on the particular project.

The contractor may need prior written approval of any subcontractors by the contracting department.

Rental Costs

Rental costs of land, building, equipment and other personal property are allowable provided that the rates are reasonable in light of such factors as rental costs of comparable facilities and market conditions in the area. Rental costs may not exceed fair market rental value unless pre-approved in writing by the City and reimbursable from a non-City funding source. The location of all rental properties and the cost per square foot must be listed in the supporting detail of the budget.

The type of equipment that is being rented must be listed and, if the equipment is under a lease purchase agreement, the value of the equipment at the end of the lease as well as the monthly charge must be listed.

Mortgaged real estate which is already owned by a contractor is allowable as a rental cost. The amount charged shall be prorated in relationship to the percentage of space used for the contracted program and shall be the lesser of the fair market rental value of the space or the actual monthly cost including down payment, principal and interest, major repairs and renovations calculated over the length of the mortgage unless otherwise approved by the contracting department.

A continuing participation allowance for the use of space in debt-free real estate owned by an agency is allowable if reimbursable as stipulated in the applicable non-City funding source's regulations and guidelines. This allowance must be accounted for in a restricted fund and may be used solely for services for which the City has contracted and in accordance with the guidelines and restrictions in the City's Cost Principles and Guidelines.

Security Costs

The cost to provide security services such as night guards for a building which is used for program-related functions is allowable. In situations where only part of the building is being used to provide services under a City contract, the total charge shall be prorated in direct relation to the amount of space used by the contracted program to determine the allowable amount. Required documentation will be copies of all invoices paid and time records indicating the number of hours the service was provided.

Security cost may be included as part of a rental charge. If the cost of security is included in lease or rental payments, it is allowable to the extent that the additional lease or rental payment amount reflects the actual cost of the service. This service may be purchased separately if it is offered at a lesser cost. If this service is purchased separately, documentation showing that this was the most economical method for the provision of this service must be provided.

Taxes

Taxes which the contractor is required to pay are generally unallowable.

The exceptions are wage taxes included in gross salaries and state and local sales taxes incurred for the acquisition of materials, supplies and equipment. Taxes paid for the acquisition of land or buildings are unallowable except for transfer taxes to the extent to which they are reimbursable from a non-City funding source.

Training and Education Costs

Training and education costs are generally unallowable unless required to maintain licensing or certification necessary in the performance of the contract services. Training which is deemed essential both to meet the contract objectives and to improve measurably the delivery of services may be considered allowable, but the specific content of training must be approved by the department as a direct cost line item in the contract budget. Training to enhance the professional skills of contractor staff to meet contract requirements is unallowable. Training for existing contractor staff to meet new state or federal education requirements is an allowable expense. Appropriate documentation is required for cost reimbursement.

Travel Costs

Travel costs are the expenses for transportation, lodging meals and other related items incurred by employees who are in travel status for the organization and are allowable only when they are directly attributable to the specific work of the contract. Such costs will only be reimbursed in accordance with the rates established by the City in its Administrative Board Rule No. 2.

Required documentation will be copies of all invoices from airlines, travel agencies, trains and bus companies as well as copies of validated tickets. If air or train travel is required, all accommodations must be coach.

Utilities

The cost of utilities such as heat, electric, water, sewage and fuel necessary for the operation of a building which is used for program related functions are allowable. In situations where only part of the building is being used to provide services under a City contract, the total amount shall be prorated to the contracted program to determine the allowable amount. All costs must be fully documented.

Utility costs may be included as part of a rental charge. If utility costs are included in lease or rental payments, they are allowable to the extent that the additional lease or rental payment amount reflects the actual cost of the utilities. Utility service may be purchased separately if it is offered at a lesser cost. If this service is purchased separately, documentation showing that this was the most economical method for the provision of this service must be provided.

Deviations from Cost Principles

When the best interest of the City would be served by a deviation or when these cost principles are found to be inconsistent with state or federal funding rules and regulations, the City may authorize a deviation from the cost principles set forth herein, provided that all costs are reasonable, lawful, allocable and accounted for in accordance with generally accepted accounting principles. A written request for a deviation must be submitted to the Accounting Bureau, Office of the Director of Finance for approval.

Standard Budget Format

Budget Preparation

Attached in Appendix A is a sample budget format to be used for all contract budget submissions. For contracts that include direct personnel costs, a sample personnel detail format is in Appendix B. Some sample budget items have been included for illustrative purposes only. Each department will make its own determination as to what items should appropriately be included on a contract budget submission. Though there may be some deviation from the form, it is mandatory that all budget submissions contain the information shown on the form and required in the accompanying guidelines. The guidelines are in no way meant to limit the budget information requested for the contractor. Budget formats required by non-City funding sources or budget formats developed by an individual department may be substituted for the attached format, provided the budget information contained therein meets the minimum standards required in Appendices A, B, and C. Departments are to ensure that budgets contain all information deemed necessary to justify fully all contract expenses. Per diem contracts, where the rate is based on cost reimbursement, are expected to contain the requested budget detail in order to determine those contractor expenses that have been used to calculate the per diem charge.

The guidelines in the Cost Principles and Guidelines chapter, sections, Basic Guidelines and Standards for Selected Cost Items, contain definitions and specific cost items which are allowable and should be referred to when constructing a contract budget. Each budget item and the accompanying information that must be provided is also explained in the guidelines.

It is required that the amounts of all funding sources for every item on the contract budget be shown, as well as the total cost of the item. The percentage of the total cost which is being charged to the contract must also be shown. Additional columns should be added for items that receive funding from more than one City contract so that there is one column for each. The specific contract should be identified at the top of each column.

The Cost Principles and Guidelines chapter contains an explanation of the determination of direct and indirect costs and methods for calculating indirect expenses. There is flexibility in determining whether a particular expense will be considered as direct or indirect. Each item included as an indirect cost must be listed on the budget with the amounts of all other funding sources shown. The base chosen and the calculation used for indirect cost must also be shown on the budget or certified as discussed in **Indirect Costs**. In Appendix C, is a format for showing the calculation used to derive the indirect cost rate.

Some budgets may be very simple and require only one section of the sample format. This is acceptable as long as all required information is provided. For example, a contract that consists of only a charge for personnel on an hourly basis will use only Sections I and V of the budget format, accompanied by the personnel detail sheet. The budget for a per diem contract, which will need to show all the components that go into the calculation of the per diem charge, will most likely require Sections I through V of the budget format. The budget for cost reimbursement contracts will consist of all sections of the budget format that contain reimbursable expenses.

Contract Budget Format

APPENDIX A

DIRECT EXPENDITURES

SECTION I

PERSONNEL (see attached for details)

	CONTRACT FUNDING	OTHER CITY FUNDS	OTHER FUNDS	TOTAL COST
SALARIES	\$34,750		\$69,250	\$104,000
FRINGE BENEFITS	\$ 5,219		\$10,939	\$ 16,158
TOTAL	\$39,969	\$0	\$80,189	\$120,158

SECTION II

SUB-CONTRACT COSTS (.listed by contractor name)

<u>NAME</u>	<u>SERVICE TO BE PROVIDED</u>				
		(prorated at _ %)			
J.J. Hughes, Inc.	accounting		\$ 5,000		\$ 5,000
	TOTAL		\$ 5,000	\$0	\$ 5,000

SECTION III

OPERATING EXPENSES (prorate if applicable)

	(prorate at _ %)			
RENT (see attached documentation)	20%	\$ 6,000	\$24,000	\$30,000
UTILITIES (list items)				
COMMUNICATION EQUIPMENT (list items 1 telephone)	20%	\$ 34	\$ 136	\$ 170
OFFICE SUPPLIES		\$ 54		\$ 54
TRAVEL		\$ 235		\$ 235
OTHER (Specify)				
PRINTING		\$ 295		\$ 295
TOTAL		\$ 6,618	\$0	\$24,136

SECTION IV EQUIPMENT

<u>PURCHASE</u> (list items and quantity)				
2 LASER PRINTERS		\$ 300		\$ 300
2 WORK STATIONS		\$ 900		\$ 900
TOTAL		\$ 1,200	\$0	\$ 1,200
<u>LEASE/RENTAL</u> (list items & quantity)	(prorated at %)			
1 COPY MACHINE (\$___/mo.)		\$ 100	\$ 300	\$ 400
TOTAL		\$ 100	\$ 300	\$ 400

SECTION V

TOTAL DIRECT EXPENDITURES	\$52,887	\$0	\$104,625	\$157,512
TOTAL INDIRECT EXPENDITURES (see attached)	\$18,155	\$0	\$ 81,845	\$100,000
TOTAL EXPENDITURES (DIRECT & INDIRECT)	\$71,042	\$0	\$186,470	\$257,512

SERVICE UNITS TO BE PROVIDED (include description)

Cataloging of books:	1,500	
CONTRACT COST PER SERVICE UNIT:	\$ 47.36	