

## SECTION 200

### SUMMARY OF APPLICABLE LITERATURE

#### SECTION 201 - GENERAL INFORMATION

**.01** In performing a governmental type audit at a government agency or not-for-profit organization, the Statements on Auditing Standards (SAS's) are applicable. Therefore, the auditor should perform the audit, at a minimum, in accordance with generally accepted auditing standards. However, in governmental type audits and audits for the City of Philadelphia, there are numerous other official publications of which the auditor must be knowledgeable, and the auditor must perform the audit in accordance with the provisions of these additional regulations. The AICPA recognized these additional standards and/or procedures and concluded the following in Ethics Ruling 501-3:

*Failure to follow standards and/or procedures or other requirements in governmentd audit. Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards. If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, he is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of Rule 501, unless the member discloses in his report the fact that such requirements were not followed and the reasons therefore.*

**.02** Failure to follow the standards and/or procedures contained in the publications listed in Sections 202 to 207 of this Audit Guide, without disclosure in the auditor's report, will be a violation of Ethics Rule 501. In addition, reference in the auditor's report that the audit was conducted in accordance with the provisions of the City of Philadelphia Subrecipient Audit Guide incorporates the applicable provisions of the publications cited in Sections 202 to 207 as well as the other applicable pronouncements promulgated by the Government Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB) and the AICPA.

**.03** The auditor should obtain and become familiar with the following publications prior to auditing the programs of the subrecipient organization. The following is a summary of each publication along with information for obtaining each publication. This summary is provided for informational purposes only. The organization and the auditor should refer to the actual publication for guidance.

#### SECTION 202 - AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

**.01** Statements on Auditing Standards (SAS). Issued by the Auditing Standards Board and represents generally accepted auditing standards. "Rule 202 of the AICPA's Code of Professional Ethics requires adherence to generally accepted auditing standards, recognizes Statements on Auditing Standards as interpretations of those standards, and requires that members be prepared to justify departures." In addition, the following statements on auditing standards are critical in the performance of a governmental type audit and must be understood and utilized by the auditor.

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### **.02** SAS No. 53 - The Auditor's Responsibility to Detect and Report Errors and Irregularities (Issued April 1988) **(1)**

This Statement provides guidance on the independent auditor's responsibility for the detection of errors and irregularities in an audit of financial statements in accordance with generally accepted auditing standards. It describes factors that influence the auditor's ability to detect errors and irregularities and explains how the exercise of due care should give appropriate consideration to the possibility of errors or irregularities. It also provides guidance on the auditor's responsibility to communicate detected matters both within and outside the entity whose financial statements are under audit.

### **.03** SAS No. 54 - Illegal Acts by Clients (Issued April 1988)

This Statement prescribes the nature and extent of the consideration an independent auditor should give to the possibility of illegal acts by a client in an audit of financial statements in accordance with generally accepted auditing standards. The Statement also provides guidance on the auditor's responsibilities when a possible illegal act is detected.

### **.04** SAS No. 55 - Consideration of the Internal Control Structure in a Financial Statement Audit (Issued April 1988) (Amended by SAS No. 78)

This Statement provides guidance on the independent auditor's consideration of an entity's internal control structure in an audit of financial statements in accordance with generally accepted auditing standards. It describes the elements of an internal control structure and explains how an auditor should consider the internal control structure in planning and performing an audit.

In December 1995, the AICPA issued SAS No. 78, which amended SAS No. 55. The amendment was made to recognize the definition and description of internal control contained in Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations (COSO) of the Tradeway Commission. COSO designated the following five components of internal control:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure that management directives are carried out.

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| **(1)** Superseded by SAS No. 82 - Consideration of Fraud in a Financial Statement Audit

## SECTION 202 (CONT.)

- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- *Monitoring* is a process that assesses the quality of internal control performance over time.

### **.05** SAS No. 74 - Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance

This Statement is applicable when an auditor is engaged to audit a governmental entity under generally accepted auditing standards (GAAS), and engaged to test and report on compliance with laws and regulations under Government Auditing Standards (the Yellow Book) or in certain other circumstances involving governmental financial assistance, such as single or organization-wide audits or program-specific audits under certain federal or state audit regulations.

The SAS provides general guidance to the auditor to:

- a. Apply the provisions of AU Section 317, *Illegal Acts by Clients*, relative to detecting misstatements resulting from illegal acts related to laws and regulations that have a direct and material effect on the determination of financial statement amounts in audits of the financial statements of governmental entities and other recipients of governmental financial assistance.
- b. Perform a financial audit in accordance with Governmental Auditing Standards, issued by the Comptroller General of the United States.
- c. Perform a single or organization-wide audit or a program-specific audit in accordance with federal audit requirements.
- d. Communicate with management if the auditor becomes aware that the entity is subject to an audit requirement that may not be encompassed in the terms of his or her engagement.

The specific guidance previously provided in SAS No. 68 is now provided in the AICPA Audit and Accounting Guide - Audits of State and Local Government Units, and in Statement of Position (SOP) 92-9, Audits of Not-for-Profit Organizations Receiving Federal Awards, as applicable.

SAS No. 74 is effective for audits of financial statements and of compliance with laws and regulations for fiscal periods ending after December 31, 1994.

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### **.06** SAS No. 82 - Consideration of Fraud in a Financial Statement Audit

SAS No. 82 was issued in February 1997. SAS No. 82 does the following:

- Describes fraud and its characteristics.
- Requires the auditor to specifically assess the risk of material misstatement due to fraud and provides categories of fraud risk factors that should be considered in the auditor's assessment.
- Provides guidance on how the auditor should respond to the results of the assessment.
- Describes related documentation requirements.
- Provides guidance regarding the auditor's communication about fraud to management, the audit committee, and others.

The SAS affects existing standards as follows:

- It supersedes SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*.
- Amends Section 110 of SAS No. 1, *Responsibilities and Functions of the Independent Auditor*, to clarify the auditor's presently existing responsibility in an audit for the detection of material misstatements in financial statements resulting from fraud.
- Amends Section 230 of SAS No. 1, *Due Professional Care in the Performance of Work*, to include an expanded discussion of due professional care and reasonable assurance.
- Amends SAS No. 47, *Audit Risk and Materiality in Conducting an Audit*. These revisions provide a foundation within the audit risk model for the consideration of fraud and incorporate certain guidance relating to errors that was formerly included in superseded SAS No. 53.

SAS No. 82 is effective for audits of financial statements for periods ending on or after December 15, 1997. Early application is permissible.

### **.07** Audit and Accounting Audit Guide - Not-for-Profit Organizations (New Edition as of June 1, 1996)

This AICPA Audit and Accounting Guide (Guide) was prepared to assist nongovernmental not-for-profit organizations in preparing financial statements in conformity with generally accepted accounting principles (GAAP) and to assist independent auditors in auditing and reporting on those financial statements. This Guide applies to organizations that meet the definition of a not-for-profit organization included in appendix D of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 166, *Accounting for Contributions Received and Contributions Made*.

## SECTION 202 (CONT.)

This Guide incorporates certain provisions of FASB Statement Nos. 116 and 117, *Financial Statements of Not-for-Profit Organizations*. Not all guidance that is included in those Statements, however, is incorporated, repeated, or summarized in this Guide. Accordingly, those Statements should be read in conjunction with this Guide. Like FASB Statement Nos. 116 and 117, this Guide is directed at not-for-profit organizations in general, and not at specific kinds of such organizations, such as voluntary health and welfare organizations or private colleges and universities.

This Guide supersedes the following AICPA Audit and Accounting Guides:

- Industry Audit Guide *Audits of Voluntary Health and Welfare organizations*.
- Industry Audit Guide *Audits of Colleges and Universities*
- Audit and Accounting Guide *Audits of Certain Nonprofit Organizations*.

It also supersedes the following AICPA SOPs:

- SOP 74-8, *Financial Accounting and Reporting Colleges and Universities*.
- SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*.
- SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations that Include a Fund-Raising Appeal*.
- SOP 94-2, *The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations*.

**.08** Statement of Position 92-9, Audits of Not-for-Profit Organizations Receiving Federal Awards, Issued December 28, 1992, Revised as of December 18, 1995

This statement of position (SOP) is only applicable for single audits for years ending through June 30, 1996. Due to the issuance of the revised OMB-133 (effective July 1, 1996) this audit guide is not applicable to single audits for years ending June 30, 1997. A revised SOP is expected to be issued during the Fall of 1997.

All of the above publications are available from the:

American Institute of Certified Public Accountants  
Order Department  
P.O. Box 2209  
Jersey City, New Jersey 07303-2209  
(800) 862-4272  
Fax No. (800) 362-5066

## **SECTION 203 - GENERAL ACCOUNTING OFFICE (GAO)**

### **.01 Government Auditing Standards (1994 Revision)**

The standards for audit of governmental organizations, programs, activities, and functions, the "Yellow Book", provides standards for financial and performance audits of government organizations, programs, activities, and functions, and of government funds received by contractors, not-for-profit organizations, and other nongovernment organizations. The standards incorporate the AICPA Statements on Auditing Standards for field work and reporting on financial audits and prescribe additional standards to meet the needs of government audit report users. The standards pertain to the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

The GAO Stock No. for the above publication is 020-000-00-265-4.

The above publication is available from the:

Government Printing Office  
Superintendent of Documents  
P.O. Box 371954  
Pittsburgh, PA 15250-7954  
(202) 512-1800

## **SECTION 204 - OFFICE OF MANAGEMENT AND BUDGET (OMB)**

### **.01 Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions (Issued May 8, 1996)**

The Circular establishes principles for determining costs applicable to grants, contracts and other agreements with educational institutions. The significant areas covered by the Circular include:

- Principles for determining costs applicable to grants, contracts, and other agreements, including definition of direct and indirect costs along with the requirements for cost allocation plans; and
- Standards for selected items of cost.

### **.02 Office of Management and Budget Circular A-87, Cost Principles for State, Local Governments and Indian Tribal**

The Circular establishes cost principles and standards applicable to grants, contracts and other agreements with state and local governments. The significant areas covered by the Circular include:

- Principles for determining costs applicable to grants and contracts, including definitions of direct and indirect costs along with the requirements for cost allocation plans; and
- Standards for selected items of cost, including allowable costs and unallowable costs.

## SECTION 204 (CONT.)

- .03** Office of Management and Budget Circular A-102, Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments, Issued October 14, 1994 (effective October 14, 1994)

The Circular provides standards and guidance for the administration of grants to state and local governments.

- .04** Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule).

These rules and regulations finalize a common rule establishing consistency and uniformity among federal agencies in the administration of grants and cooperative agreements to state and local governments and federally-recognized Indian tribal governments. This Common Rule was published in the Federal Register, Volume 53, No. 48, on Friday, March 11, 1988.

- .05** "Office of Management and Budget Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations (Revised Effective 5/30/94)

This Circular sets forth standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other nonprofit organizations.

The provisions of the sections of this Circular shall be applied by Federal agencies to recipients. Recipients shall apply the provisions of this Circular to subrecipients performing substantive work under grants and agreements that are passed through or awarded by the primary recipient. This Circular does not apply to grants, contracts, or other agreements between the Federal Government and units of State or local governments covered by OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," and the Federal agencies' grants management common rule which standardized and codified the administrative requirements Federal agencies impose on State and local grantees. In addition, subawards and contracts to State or local governments are not covered by this Circular. However, this Circular applies to subawards made by State and local governments to organizations covered by this Circular.

The effective dates of this new OMB Circular A-110, are as follows:

- For Federal Agencies - December 29, 1993
- For Grantees and Other Organizations - Standards imposed by Federal agencies upon grantees within six months of publication in the Federal Register which was on November 29, 1993. Therefore, all Federal agencies were to adopt these new provisions for grantees by May 30, 1994.

## SECTION 204 (CONT.)

The Circular includes the following parts:

Subpart A - General

Subpart B - Pre-Award Requirements

Subpart C - Post-Award Requirements

- Financial and Program Management
- Property Standards
- Procurement Standards
- Reports and Records
- Termination and Enforcement

Subpart D - After-the-Award Requirements

Appendix A - Contract Provisions

### **.06** Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations

The Circular establishes principles for determining costs of grants, contracts and other agreements with not-for-profit organizations. It does not apply to state and local governments, which are covered by Circular A-87. The significant areas covered by the Circular include:

- Principles for determining costs applicable to grants, cooperative agreements, cost reimbursement contracts, including definition of direct and indirect costs along with the requirements for cost allocation plans; and
- Standards for selected items of cost, including allowable costs and unallowable costs.

### **.07** Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Revised June 24, 1997) (1)

This Circular was 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. The 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.

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(1) OMB Circular A-133 is included in Appendix B of this Audit Guide.

## SECTION 204 (CONT.)

The standards set forth in 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.

In addition, 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.

The audit requirements under this Circular are that 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 a particular year. The following parameters apply in whether a single audit or program audit is pertinent:

- Single audit. Non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single audit conducted except when they elect to have a program-specific audit conducted.
- 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. 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.

Non-Federal entities that expend less than \$300,000 a year in Federal awards are exempt from Federal audit requirements for that year, but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and General Accounting Office (GAO).

The above audit, except for the provisions for biennial audits provided below 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.
- (a) Any non-profit organization that had biennial audit for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this part biennially.

## SECTION 204 (CONT.)

The financial statements required under this Circular to be prepared by the auditee are:

- (a) 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 the Circular.
- (a) A schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:
  - 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 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.
  - 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.
  - Include notes that describe the significant accounting policies used in preparing the schedule.
  - To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
  - 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.

An auditor performing an audit under this Circular shall:

- Perform an audit of the financial statement(s) for the Federal program in accordance with GAGAS;
- Obtain an understanding of internal control and perform tests of internal control over the Federal program consistent with the requirements contained in the Circular for a major program;

## SECTION 204 (CONT.)

- 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 contained in the Circular for a major program, and;
- 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.

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 reports(s) shall state that the audit was conducted in accordance with this part and include the following:

- 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;
- A report on internal control related to the Federal program, which shall describe the scope of testing of internal control and the results of the tests;
- A report on compliance which includes an opinion (or disclaimer 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;
- 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.

**.08** Compliance Supplement for Single Audits of State and Local Governments (Revised September 1990) (1)

**.09** Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions, Issued October 1991 (1)

**.10** OMB Circular A-133 Compliance Supplement – Provisional 6/97

This document sets forth compliance auditing requirements related to the issuance of the revised OMB A-133 Circular dated June 24, 1997.

This document serves to identify existing important compliance requirements which the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without this Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal

(1) These compliance supplements have been superseded by OMB Circular A-133 Compliance Supplement - Provisional 6/97.

## SECTION 204 (CONT.)

Government and could have a direct and material effect on a program. Providing this Supplement is a more efficient and cost effective approach to performing this research. For the programs contained herein, this Supplement provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

This Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. For single audits, this Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

The compliance requirements are specified in Part 3 of the document, under the following categories:

- 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

This Supplement is effective for audits of fiscal years beginning after June 30, 1996, and supersedes the Compliance Supplements "Audits of States and Local Governments," issued in 1990, and "Audits of Institutions of Higher Education and Other Non-Profit Organizations", issued in 1991. It is intended to assist auditors in planning and performing audits in accordance with the requirements of the 1996 Amendments and OMB Circular A-133.

### .11 Catalog of Federal Domestic Assistance

This catalog is a government-wide compendium of federal programs, projects, services and activities which provide assistance or benefits to the American public. The General Services Administration (GSA) is responsible for the dissemination of federal domestic assistance information through the Catalog and maintains the information data base from which program information is obtained. The OMB serves as an intermediary between other federal agencies and the GSA, thus providing oversight relative to the collection of federal domestic assistance program data. Program information provided by the Catalog includes authorizing legislation and audit requirements.

## SECTION 204 (CONT.)

The above publications are available as follows:

- OMB Home Page on the Internet (<http://www.whitehouse.gov/WH/EOP/omb>) under a section in the OMB documents list called “Grants Management.”
  - OMB publications, including OMB Circulars and this Supplement for audits under OMB Circular A-133.
  - “Data Collection Form” which accompanies audit reports submitted in accordance with OMB Circular A-133.
  - Federal agency implementation of the Grants Management Common Rule (A-102 Common Rule) and OMB Circular A-100.
- OMB Fax Information Line – Telephone: (202) 395-9068:
  - OMB publications of less than 50 pages.
- Office of Administration  
Publications Office, Room 2200  
New Executive Office Building  
Washington, DC 20503  
Telephone: (202) 395-7332
  - OMB publications.
- General Services Administration (GSA)  
Federal Domestic Assistance Catalog Staff (MVS)  
General Services Administration  
Ground Floor, Reporters Building  
300 7<sup>th</sup> Street, S.W., Washington, DC 20407  
Telephone: (202) 708-5126
  - Catalog of Federal Domestic Assistance (CFDA).

A searchable copy of the CFDA is available through the Internet on the GSA Home Page (<http://www.gsa.gov/fdac>). The CFDA is also available in hard copy (from the Government Printing Office), and on machine-readable magnetic tape, high density floppy diskettes, and CD-ROM (from GSA).

- Government Printing Office (GPO)  
Superintendent of Documents  
P.O. Box 371954  
Pittsburgh, PA 15250-7954  
Telephone: (202) 512-1800

## SECTION 204 (CONT.)

-Catalog of Federal Domestic Assistance.

-Government Auditing Standards (stock number 020-000-00-265-4).

## SECTION 205 - CODE OF FEDERAL REGULATIONS

**.01** The Office of the Federal Register, National Archives and Records Service of the U.S. General Services Administration publishes various books which contain *Code of Federal Regulations* (CFR) detailing certain laws and regulations for federal program operations. These CFR's are useful in determining the specific law or regulation pertaining to a particular federal program.

CFR's are available from the:

Government Printing Office  
Superintendent of Documents  
P.O. Box 371954  
Pittsburgh, PA 15250-7954  
(202) 512-1800

## SECTION 206 - CITY OF PHILADELPHIA

### **.01** City of Philadelphia, Contract Cost Principles and Guidance

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 some basic definitions. In Section I, different types of contracts are defined, as well as the meaning of the term "service unit costs."

Section II 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. Section II also includes definitions of direct and indirect costs and explains two methods for allocating indirect costs.

Section III 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. Section III also discusses how to calculate service unit cost.

## SECTION 206 (CONT.)

The City of Philadelphia, contract cost principles and guidelines (which are included in this Guide in Appendix C. The provisions of each contract between a subrecipient and the City of Philadelphia should be read to determine the applicability of the above cost principles.

## SECTION 207 - COMMONWEALTH OF PENNSYLVANIA

At the time of the preparation of this Audit Guide, the Commonwealth of Pennsylvania and its various departments had not yet finalized an audit policy regarding the revised OMB Circular A-133. Subrecipient organizations and their auditors should be aware of any guidance that may be forthcoming. In addition, until such guidance is provided the organization should be guided by the requirements of their contract with the Commonwealth and its Departments.

## SECTION 208 - AUDIT HIERARCHY

**.01** When performing an audit of a City of Philadelphia subrecipient, the auditor should be cognizant of the following audit hierarchy established by the AICPA.

| <u>Nongovernmental Entities</u>  | <u>State and Local Governments</u>  |
|--|---|
| 1. FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins.   | 1. GASB Statements and Interpretations, plus AICPA and FASB pronouncements if made applicable to state and local governments by a GASB Statement or Interpretation.   |
| 2. FASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.                                   | 2. GASB Technical Bulletins, and the following pronouncements if specifically made applicable to state and local governments by the AICPA: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position. |
| 3. Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins.  | 3. Consensus positions of the GASB Emerging Issues Task Force and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA.   |
| 4. AICPA accounting interpretations, "Qs and As" published by the FASB staff, as well as industry practices widely recognized and prevalent. | 4. "Qs and As" published by the GASB staff, as well as industry practices widely recognized and prevalent.  |



**SECTION 208 (CONT.)**

\* 5. Other accounting literature, including FASB Concepts Statements; APB Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; GASB Statements, Interpretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.

\* 5. Other accounting literature, including GASB Concepts Statements; pronouncements in categories (1) through, (4) of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments; APB Statements; FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.

\* The *City of Philadelphia Subrecipient Audit Guide* would fall within this category.