



Center for Government  
**Innovation**

# ESSENTIALS OF **MANAGING FEDERAL AWARDS**

A COMPLIANCE HANDBOOK



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# Table of Contents

<a href="#">Federal award requirements for local government recipients: An introduction</a>	3
<a href="#">Section 1: Understanding allowable costs – the Cost Principles</a>	8
<a href="#">Chapter 1: Basic cost considerations</a>	9
<a href="#">Chapter 2: Direct and indirect costs</a>	15
<a href="#">Chapter 3: Guidance on specific cost types</a>	23
<a href="#">Section 2: Overview of common administrative requirements</a>	33
<a href="#">Chapter 1: Allowable activities and costs</a>	35
<a href="#">Chapter 2: Cash management</a>	37
<a href="#">Chapter 3: Eligibility</a>	40
<a href="#">Chapter 4: Equipment and real property management</a>	42
<a href="#">Chapter 5: Cost sharing, level of effort, earmarking</a>	46
<a href="#">Chapter 6: Period of performance</a>	50
<a href="#">Chapter 7: Procurement</a>	53
<a href="#">Chapter 8: Suspension and debarment</a>	62
<a href="#">Chapter 9: Program income</a>	64
<a href="#">Chapter 10: Reporting</a>	68
<a href="#">Chapter 11: Subrecipient monitoring</a>	70
<a href="#">Chapter 12: Special test: Wage rate requirements (Davis-Bacon Act and related acts)</a>	75
<a href="#">Section 3: Essentials for implementing internal controls</a>	77
<a href="#">Section 4: The Schedule of Expenditures of Federal Awards (SEFA)</a>	85
<a href="#">Section 5: The federal single audit</a>	96
<a href="#">Section 6: Additional resources</a>	103

## Disclaimer

This resource is provided for informational purposes only. It does not represent prescriptive guidance, legal advice, an audit recommendation, or audit assurance. It does not relieve governments of their responsibilities to assess risks, design appropriate controls, and make management decisions.

# Federal award requirements for local government recipients: An introduction

Washington governments are spending historic amounts of federal money. Whether it is to respond to the coronavirus pandemic or improve local infrastructure, governments across the state are using these funds to deliver critical services and invest in their communities. However, this increase in funding comes with a greater responsibility to use the federal award as intended and to follow the rules you agreed to when you accepted it. By doing so, you show your commitment to accountability and transparency for the federal money entrusted to your government.

But navigating federal requirements and creating internal controls to ensure you follow them can be challenging – even for governments that routinely receive significant amounts of federal dollars. Federal programs vary greatly in complexity, and award requirements change. Government staff need time, support and training to understand, monitor and manage these awards effectively. Without dedicating adequate time and resources, governments risk not complying with requirements or mispending their federal awards. And that can lead auditors to question spending, which then can lead to the federal government asking you to pay the money back.

To help governments manage their federal awards, the Office of the Washington State Auditor offers a six-hour training on award requirements. We do this training a few times every year, usually through the [Washington Finance Officers Association](#). This is the handbook for this training. As of September 2024, governments can access the latest version of this handbook at any time of the year in our [Resource Library](#).

## What's in this handbook

In this handbook and in our training, we cover the essentials of the federal regulations for managing, spending and auditing federal awards. This authoritative set of requirements, found in [Part 200 of Title 2 of the U.S. Code of Federal Regulations](#), is called the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – or more commonly, the “Uniform Guidance.”

This handbook summarizes the most critical Uniform Guidance elements – in an easier-to-digest format – that people need to know if they manage federal awards. Users of this handbook can get an overview of the most important and common compliance requirements and learn where to keep reading about the areas most applicable to them. In this way, local governments can better understand the Uniform Guidance, which will help them design effective internal controls to meet these requirements and better manage their federal awards.

## What is a federal award?

Any [federal financial assistance](#) that a government receives directly from a federal awarding agency, such as the U.S. Department of the Treasury, or indirectly from a pass-through entity such as the Washington State Department of Commerce. Federal awards may include grants, loans and other assistance.

## Here is a snapshot of the topics in the six sections of this handbook:

- Section 1 covers the Cost Principles, or the Uniform Guidance rules that govern what you can and cannot charge to a federal award.
- Section 2 provides an overview of each of the common administrative requirements that you may need to follow when you manage a federal award, depending on its terms and conditions.
- Section 3 discusses the requirements of an internal control system when you manage a federal award, and covers some valuable reference materials you can use to help design your system.
- Section 4 explains the Schedule of Expenditures of Federal Awards and provides resources and advice on how to prepare it.
- Section 5 outlines the federal single audit requirements and scope, and your responsibilities as the auditee.
- Section 6 includes a list of resources to help you manage your federal awards, most of which we also reference throughout the handbook.

To keep this handbook practical, we did not include the full text of the Uniform Guidance, but we link to the source material. While we paraphrased some of the language of the Uniform Guidance, you should follow the links to read the full regulations that are most relevant to your government and its federal awards. We focus primarily on local governments, but we do include some information relevant to other recipients, such as states, Indian tribes and higher education institutions.

## An overview of the Uniform Guidance

In late 2013, the Office of Management and Budget (OMB) issued the first version of the Uniform Guidance, which became effective for all new federal awards issued on or after December 26, 2014. Before the federal government issued this comprehensive guidance, government staff had to read separate circulars from OMB to learn the compliance and audit requirements for their federal awards. The Uniform Guidance supersedes these circulars and sets the rules for federal agencies, award recipients and subrecipients.

The Uniform Guidance is intended to create consistency among federal agencies and for federal award requirements, and reduce administrative burden for government staff who manage federal awards. While all this guidance is now compiled in one place, it can be overwhelming for government staff who are new to federal award management. That is why this handbook summarizes the most critical elements of the Uniform Guidance and directs you to exactly where to learn more.

## How do I use the Uniform Guidance?

The OMB revises the Uniform Guidance every five years. The most recent round of revisions to the Cost Principles and common administrative requirements are effective for new federal awards issued on or after October 1, 2024. However, federal agencies may choose to implement these revisions to new awards and through amendments to existing awards as early as June 21, 2024. Changes affecting the audit requirements are effective for reporting periods beginning on or after October 1, 2024. **In this handbook, the Uniform Guidance revisions are in bold text that is highlighted in light orange.**

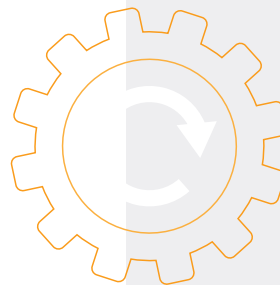


Local government staff should familiarize themselves with key sections of the Uniform Guidance that may apply to their federal award. The information in this handbook is a good starting point. Where the Uniform Guidance applies to your government's situation, you should then read the corresponding regulation in detail, such as if you were to prepare a cost allocation plan or charge a specific cost item like travel. You must also read your award's terms and conditions, as they may impose additional requirements beyond those expressed in the Uniform Guidance.

## What is the *Compliance Supplement* and how does it relate to the Uniform Guidance?

Throughout this handbook, we refer to OMB's annual *Compliance Supplement*. Whereas the Uniform Guidance is the authoritative set of rules for federal agencies and award recipients and subrecipients, the *Compliance Supplement* is the authoritative guidance for auditors when they assess your compliance with program requirements. Though the supplement is intended for auditors, it is also a useful resource for award recipients and subrecipients because it discusses the compliance requirements in detail, provides illustrative controls for them and outlines potential audit procedures. These can provide ideas for internal controls you might use to manage your programs.

The links in this handbook will take you to the most current version of the *Compliance Supplement* on the White House website, but that webpage also directs you to supplements from prior years. Make sure you are reading the version of the supplement that corresponds to the fiscal year in which your federal award activity occurred. For example, if your fiscal year-end is December 30, 2024 – and you administered rental assistance under a federal award between January 1, 2024, and December 31, 2024 – you would use the 2024 *Compliance Supplement*.



## What parts of the Uniform Guidance does this handbook cover?

The Uniform Guidance has many subparts, and some apply primarily to federal agencies issuing awards. Other subparts have regulations that apply to award recipients and subrecipients, which are the focus of our training and this handbook. As noted in **Figure 1** below, we cover a portion of Subpart C, but mainly focus on Subparts D, E and F. The Uniform Guidance is full of terms and acronyms that may be unfamiliar for people who are new to managing federal programs. If you are uncertain about a term or acronym, we recommend referencing the definitions in Subpart A at [2 CFR §200.1](#). We also periodically refer to the Uniform Guidance definitions throughout this handbook.

**Figure 1. The six subparts of the Uniform Guidance and where this handbook covers them**

Subpart	Where we cover it in this handbook	Citation
<b>Subpart A</b> – Acronyms and Definitions (for terms used throughout the Uniform Guidance)	We refer to key definitions in this part throughout this handbook.	<a href="#">2 CFR §200.0-.1</a>
<b>Subpart B</b> – General Provisions	We do not cover this part because it primarily applies to federal agencies.	<a href="#">2 CFR §200.100-.113</a>
<b>Subpart C</b> – Pre-Federal Award Requirements and Contents of Federal Awards	Most sections of this part apply to federal agencies. Some have a few requirements applicable to recipients, and we cover some of them in Section 2 of this handbook.	<a href="#">2 CFR §200.200-.216</a>
<b>Subpart D</b> – Post Federal Award Requirements	See <b>Section 2</b> of this handbook	<a href="#">2 CFR §200.300-.346</a>
<b>Subpart E</b> – Cost Principles (for determining allowable costs)	See <b>Section 1</b> of this handbook	<a href="#">2 CFR §200.400-.476</a>
<b>Subpart F</b> – Audit Requirements	See <b>Sections 4 and 5</b> of this handbook	<a href="#">2 CFR §200.500-.521</a>

The Uniform Guidance includes exceptions for the applicability of each subpart. Refer to [2 CFR §200.101\(b\)](#) for information on which subparts are applicable to different types of federal financial assistance.

### When is something a requirement and when is it just a recommendation?

In the Uniform Guidance, the word “must” indicates a requirement. The words “should” or “may” indicate a recommended approach, allowing you to exercise discretion ([2 CFR §200.101](#)). This handbook uses the same wording.

### What if my federal award did not come directly from a federal agency? Does the Uniform Guidance apply?

Potentially yes, if the awarding agency is passing through federal funds. You should refer to your award notice and your award’s terms and conditions. When in doubt, contact your awarding agency directly. We cover this topic more in Section 4 of the handbook.

## Getting help when you have questions

When you have questions about your federal award – or how to implement the Uniform Guidance with respect to your federal award – you should first contact your awarding agency. Awarding agencies are the best source of information for recipients who have questions about their federal awards.

The State Auditor’s Office’s [Help Desk](#) in the client portal is also a great place for Washington’s state and local governments to ask questions about the single audit or the compliance requirements.



## Section 1

# Understanding allowable costs – the Cost Principles

A primary task of government employees who manage and oversee federal awards is to determine the types of costs their government may charge to them. When applicable, most recipients and subrecipients must apply the Uniform Guidance Cost Principles, their specific federal award's terms and conditions, and any applicable federal laws and regulations when determining allowable costs.

Our focus in this section is the Uniform Guidance Cost Principles in 2 CFR Part §200, [Subpart E](#). These cost principles apply to most federal grants, cooperative agreements and other federal financial assistance, with exceptions as explained in [2 CFR §200.401](#), or as indicated in the federal award's terms and conditions. You must also apply the Cost Principles when you participate in cost sharing, such as when you pay for some costs related to a federal program or project with your own dollars.

As a recipient or subrecipient, it is your responsibility to read and understand all guidance affecting the allowability of costs. While helpful, the information in this section is not intended to be all-inclusive, so only use it to begin understanding the Uniform Guidance Cost Principles. You should also read your federal award's terms and conditions and any program-specific federal statutes or regulations that would further inform how you may spend costs for your specific award. If you have questions, the best source of information is always going to be your awarding agency.

## Topics covered in this section

- **Chapter 1 – Basic cost considerations:** We cover the basic considerations you must follow when charging costs to a federal award. We discuss the eight criteria that costs must meet to be allowable under federal awards, as well as additional guidelines relating to applying applicable credits, seeking prior approval for costs and refunding the federal agency for any unallowable costs you may have claimed. You will find this guidance in the first section of [Subpart E](#) of the Uniform Guidance (2 CFR §200.402–.411).
- **Chapter 2 – Direct and indirect costs:** We cover the difference between a direct and indirect cost, and describe your options and the requirements for charging indirect costs to federal awards. You will find criteria in the middle section of [Subpart E](#) of the Uniform Guidance (2 CFR §200.412–.417).
- **Chapter 3 – Guidance on specific cost types:** We describe the rules for charging more than 50 types of costs to a federal award, such as alcoholic beverages and fringe benefits. The Uniform Guidance may prohibit a certain type of cost, allow it or provide stipulations and exceptions. You will find this criteria in the last section of [Subpart E](#) of the Uniform Guidance (2 CFR §200.420–.476).

While helpful, the information in this section is not intended to be all-inclusive, so only use it to begin understanding the Uniform Guidance Cost Principles.



## Basic cost considerations

This chapter covers select topics from the basic cost considerations in [Subpart E](#) of the Uniform Guidance (2 CFR §200.402 – .411). We discuss the eight criteria that costs must meet to be allowable under federal awards, as well as additional guidelines relating to applying applicable credits, seeking prior approval for costs and refunding the federal agency for any unallowable costs you may have claimed.

**Note:** Hospital districts should follow the cost principles in [Appendix IX](#) of the Uniform Guidance.

### Factors affecting allowability of costs

Except where otherwise authorized by statute, your costs must meet the following eight criteria to be allowable under federal awards in accordance with [2 CFR §200.403](#):

- a) **Be necessary and reasonable** for the performance of the federal award and **be allocable** under these principles.

The Uniform Guidance expands on reasonable costs in [2 CFR §200.404](#). A cost is reasonable if it does not exceed an amount that a prudent person would incur under the circumstances prevailing when the decision was made to incur the cost. In determining the reasonableness of a cost, recipients and subrecipients must consider the following:

- *Ordinary and necessary* – Whether the cost is generally recognized as ordinary and necessary for the recipient’s or subrecipient’s operation or for the proper and efficient performance of the federal award.
- *Other restraints and requirements* – Restraints or requirements imposed by such factors as sound business practices; arm’s-length bargaining; federal, state, local, tribal, and other laws and regulations; and the federal award’s terms and conditions.
- *Comparable pricing* – Market prices for comparable goods and services for the geographic area.
- *Acted with prudence* – Whether the people concerned acted with prudence in the circumstances considering their responsibilities to the recipient or subrecipient, its employees, its students or membership (if applicable), the public at large and the federal government.
- *Consistent application of policy* – Whether the cost deviates from the recipient’s or subrecipient’s established written policies and procedures for incurring costs.

The Uniform Guidance expands on whether a cost is allocable in [2 CFR §200.405](#). A cost is allocable to a federal award or other cost objective (such as a major government function, project or service) if the cost is assignable to that federal award or other cost objective in accordance with the relative benefits received. This standard is met if the cost satisfied any of the following criteria:

- Is incurred specifically for the federal award
- Benefits both the federal award and the other work of the recipient or subrecipient and can be distributed in proportions that may be approximated using reasonable methods
- Is necessary to overall operation of the recipient or subrecipient and is assignable in part in accordance with these cost principles

This regulation also contains guidance on allocating indirect costs to all benefitting activities even if they are unallowable or constitute donated services, limiting charging certain allocable costs to other federal awards when they belong to a particular federal award, allocating costs when you cannot determine the exact proportions without undue effort or cost, and assigning the cost of equipment or capital assets. Refer to the regulation for more details.

**Note:** For more information about allocating indirect costs, refer to Chapter 3 of this section.

- b) Conform to any limitations or exclusions** explained in the Cost Principles or in the federal award as to the types or amount of cost items.

**Note:** Your federal award's terms and conditions may prohibit you from incurring and charging certain types of costs and may limit the dollar amount of certain types of allowable costs. You must adhere to your federal award's limit, even if your allowable cost exceeds it or the Cost Principles permit it ([2 CFR §200.408](#)).

The Cost Principles will also limit or exclude certain types of costs, so you should familiarize yourself with them. For example, in Chapter 3 of this Section we discuss the guidance on specific cost types – some of which speak to unallowable costs like alcohol or lobbying costs.

- c) Be consistent with policies and procedures** that apply uniformly to both federally financed and other activities of the recipient or subrecipient.

**Note:** For example, all employees should incur travel costs in accordance with your travel policy, regardless of whether you will charge the travel costs to a federal program.

- d) Be accorded consistent treatment.** For example, a cost must not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

**Note:** To illustrate this point, assume a recipient allocates the cost of its computer network. If the recipient charges the computer network as a direct cost to several federal programs, the recipient must then only charge it as a direct cost for all federal programs. You can read the definitions of direct or indirect costs in [2 CFR §200.1](#), but Chapter 2 of this section also covers them in detail.

- e) **Be determined in accordance with generally accepted accounting principles (GAAP)**, except for state and local governments and Indian tribes only, as otherwise provided for in the Uniform Guidance.

**Note:** State and local governments must determine costs in accordance with your accounting basis, whether that is GAAP or an authorized “other comprehensive basis of accounting.” Your accounting basis will standardize the calculation and recognition of certain costs – some of which you may charge to a federal award.

- f) **Not be included as a cost or used to meet cost sharing requirements of any other federally financed program** in either the current or a prior period. See also [§200.306\(b\)](#).

**Note:** For example, a recipient incurs a \$10,000 supply cost. If it is an allowable cost, the recipient may charge it a federal award or use it to meet a cost sharing requirement of a federal award. The recipient cannot charge the same cost to more than one federal award or double count it as cost sharing under more than one program.

- g) **Be adequately documented.** See §§[200.300](#) through [200.309](#).

**Note:** Common forms of source documentation include:

- Payroll records
- Employee time-and-effort records such as timesheets
- Vendor invoices
- Subrecipient invoice vouchers
- Cost allocation plans or indirect cost rate proposals
- Journal vouchers, including an explanation and support for year-end adjustments and transfers

You must keep documentation for the methodology of your internal service charges. For example, if you charge an equipment rental revolving fund billing fee to a federal award, you must document the cost data used to develop the equipment rental rate. You must also keep documentation to support how you excluded unallowable costs when developing the rate, such as equipment replacement.

You may keep digital copies of your documentation, so long as you comply with the *Budgeting, Accounting and Reporting System* (BARS) Manual requirements for electronic documentation.



**h) Costs must be incurred during the approved budget period.** Unless the federal agency has waived the requirement, you must generally seek prior written approval from the agency to carry forward unobligated balances to subsequent budget periods. See [§200.308](#) for more information. **For new federal awards issued after October 1, 2024, the Uniform Guidance will add a new provision for administrative closeout costs – they may be incurred until the due date of the final report, with two caveats. For more information, refer to §200.403.**

**Note:** The budget period is defined in [2 CFR §200.1](#). It means “the time interval from the start date of a funded portion of an award to the end date of that funded portion during which recipients and subrecipients are authorized to incur financial obligations of the funds awarded, including any funds carried forward or other revisions pursuant to [§200.308](#).”

## Additional general cost guidelines

In addition to the eight criteria that costs must meet to be allowable under federal awards, recipients must consider other guidelines when it comes to applicable credits, seeking prior approval and refunding the federal agency for any unallowable costs you may have claimed.

### Applicable credits

Applicable credits are transactions that offset or reduce direct or indirect costs allocable to your federal award, and you must apply them in accordance with [2 CFR §200.406](#). Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnity on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that these credits relate to allowable costs, recipients and subrecipients must credit them to their federal award as a cost reduction or cash refund, as appropriate.

**Note:** For example, a government purchases equipment with some federal and some local dollars. The government must allocate the discount equitably and fairly to the federal program. If the equipment was purchased entirely using federal dollars, the federal program must receive all the discount.

In some instances, you should also treat as credits any amounts received from the federal government to finance your activities or service your operations. Since this is rare, refer to the regulation for details.

## What is a cognizant agency for indirect costs?

The federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit. [Refer to 2 CFR §200.1](#) for more information.

## Prior approval of costs

As stated in [2 CFR §200.407](#), it may be difficult for a recipient to determine the reasonableness and allocability of certain costs under federal awards. To avoid a subsequent disallowance or dispute based on the unreasonableness or non-allocability of a cost, a recipient may seek the federal agency's prior written approval (or, for indirect costs, the cognizant agency for indirect costs) before incurring the cost. (**Note:** If you receive the award from a pass-through agency, such as a state, then you should review the award's terms and conditions for how you should obtain prior approval for certain costs. Consult the awarding agency if the terms and conditions do not speak to prior approval.)

**Figure 2** below lists the Uniform Guidance sections that describe the circumstances under which a recipient must obtain prior approval for a cost to be allowable. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will eliminate nine sections from the list below, as noted in the third column.**



**Figure 2. Regulations with prior approval requirements**

Category of cost	Related CFR	2024 Uniform Guidance revision
Use of grant agreements (including fixed amount awards), cooperative agreements and contracts	<a href="#">2 CFR §200.201(b)(5)</a>	Removed
Cost sharing	<a href="#">2 CFR §200.306</a>	
Program income	<a href="#">2 CFR §200.307</a>	
Revision of budget and program plans	<a href="#">2 CFR §200.308</a>	
Real property	<a href="#">2 CFR §200.311</a>	Removed
Equipment	<a href="#">2 CFR §200.313</a>	Removed
Fixed amount subawards	<a href="#">2 CFR §200.333</a>	
Direct charging of costs for administrative and clerical staff salaries (normally an indirect cost)	<a href="#">2 CFR §200.413(c)</a>	Removed
Compensation—personal services	<a href="#">2 CFR §200.430</a>	
Compensation—fringe benefits	<a href="#">2 CFR §200.431</a>	
Entertainment costs	<a href="#">2 CFR §200.438</a>	Removed

Equipment and other capital expenditures	<a href="#">2 CFR §200.439</a>	
Exchange rates	<a href="#">2 CFR §200.440</a>	
Fines, penalties, damages and other settlements	<a href="#">2 CFR §200.441</a>	
Fund raising and investment management costs	<a href="#">2 CFR §200.442</a>	
Goods or services for personal use	<a href="#">2 CFR §200.445</a>	
Insurance and indemnification	<a href="#">2 CFR §200.447</a>	
Memberships, subscriptions and professional activity costs	<a href="#">2 CFR §200.454(c)</a>	Removed
Organization costs	<a href="#">2 CFR §200.455</a>	
Participant support costs	<a href="#">2 CFR §200.456</a>	Removed
Pre-award costs	<a href="#">2 CFR §200.458</a>	
Rearrangement and reconversion costs	<a href="#">2 CFR §200.462</a>	
Selling and marketing costs	<a href="#">2 CFR §200.467</a>	Removed
Taxes (including Value Added Tax)	<a href="#">2 CFR §200.470</a>	Removed
Travel costs for “officials” and “dependents”	<a href="#">2 CFR §200.475</a>	

### Collection of unallowable costs

Recipients and subrecipients must refund the federal government, with interest, for any payments they made for costs determined to be unallowable by either the awarding federal agency, cognizant agency for indirect costs or pass-through entity. Refer to [2 CFR §200.410](#) for more details.



## Direct and indirect costs

The Uniform Guidance covers direct and indirect costs in [Subpart E](#) (2 CFR §200.412 – .417). It is important to properly classify your direct and indirect costs so you charge them to the federal award appropriately. Regardless of classification, all costs must meet the allowability requirements of Subpart E of the Uniform Guidance. Refer to Chapters 1 and 3 of this section for more information.

This chapter defines direct and indirect costs, as well as how to classify them. The chapter also provides guidance on the two options recipients and subrecipients have for charging indirect costs to their federal awards.

### Defining, classifying, and approving direct and indirect costs

Cost objectives are a key part of understanding the difference between a direct and indirect cost. The Uniform Guidance ([2 CFR §200.1](#)) defines a cost objective as a program, function, activity, award, organizational subdivision, contract or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs and capital projects. A cost objective may be a major function of the recipient or subrecipient, a particular service or project, a federal award or an indirect cost activity as described in Subpart E. Whether a cost is classified as direct or indirect depends on how it relates to the cost objective.

#### Direct costs defined

*Direct costs* are those that recipients or subrecipients can identify specifically with a *particular final cost objective* (such as a federal award) or other internally or externally funded activity, or that recipients or subrecipients can directly assign relatively easily to such activities with a high degree of accuracy. For examples of direct costs, refer to **Figure 3** below.

You will find the Uniform Guidance definition at [2 CFR §200.413](#), including additional guidance regarding direct costs.

#### Figure 3. Examples of direct costs

##### Examples of direct costs

The proportion of employee compensation and fringe benefits expended in relation to the federal award

Supplies needed to achieve the federal award's objectives

## Indirect costs defined

The Uniform Guidance ([2 CFR §200.1](#)) defines *indirect costs* as costs incurred for a common or joint purpose benefitting *more than one cost objective* and not readily assignable to the cost objectives benefitted, without effort disproportionate to the results achieved. It may be necessary for recipients or subrecipients to establish multiple pools of indirect costs so that they may equitably distribute indirect expenses to the cost objectives served. Recipients and subrecipients must distribute indirect cost pools to the benefitted cost objectives on a basis that will produce an equitable result in consideration of relative benefits derived.

Indirect costs include those originating in each department or agency of the governmental unit carrying out federal award(s), as well as the costs of central governmental services distributed through the central service cost allocation plan. For examples of indirect costs, refer to **Figure 4** below.

### Figure 4. Examples of indirect costs

#### Examples of indirect costs

Depreciation of buildings and equipment, the cost of operating and maintaining facilities

General administrative expenses such as accounting, payroll, legal and information technology expenses

### Classifying administrative costs ([2 CFR §200.413\(c\)](#))

Recipients or subrecipients should typically treat administrative and clerical staff salaries as indirect costs. However, it may be appropriate for recipients or subrecipients to charge these salaries as direct costs only if they meet all the following conditions:

- (1) Administrative or clerical services are integral to a federal award.
- (2) The individuals involved can be specifically identified with a federal award.
- (3) The budget explicitly includes such costs, or you have the federal awarding agency's prior written approval. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will remove this language.**
- (4) The costs are not also recovered as indirect costs.





### Key points on classifying costs ([2 CFR §200.412](#))

There is no universal rule for classifying certain costs as direct or indirect costs. A cost may be direct for some specific service or function but indirect for the federal award or other final cost objective. To avoid possibly double-charging federal awards, recipients or subrecipients must consistently treat each cost incurred for the same purpose in like circumstances either as a direct or an indirect cost.

To illustrate this point, assume a recipient allocates the cost of its computer network. If the recipient charges the computer network as a direct cost to several federal programs, the recipient must then only charge it as a direct cost for all federal programs.

## Charging indirect costs to federal awards

Recipients or subrecipients can decide whether to charge indirect costs to federal awards. If you choose not to, you do not need to take any further action. However, if you plan to claim indirect costs under your federal awards, the Uniform Guidance allows you to select one of the following options:

- (1) Use the de minimis indirect cost rate.
- (2) Develop and use an indirect cost rate. You would prepare:
  - a. An indirect cost rate proposal, potentially for each department or agency of the governmental unit claiming indirect costs under federal awards
  - b. A central service cost allocation plan, if you will claim central service costs under federal awards

The remainder of this chapter discusses the requirements for these two options.

### The de minimis indirect cost rate ([§200.414\(f\)](#))

Recipients and subrecipients that qualify may elect to charge a de minimis rate of up to 10% of your modified total direct cost (MTDC). **For new federal awards issued after October 1, 2024, the rate increases to 15%.** For more information on the MTDC, refer to the definition in [2 CFR §200.1](#) and **Figure 5** on the next page.



To qualify to use the de minimis indirect cost rate, **you must not:**

- Have a current federal negotiated indirect cost rate or provisional rate, which is defined in [Appendix VII](#) of the Uniform Guidance. A provisional rate is a temporary indirect cost rate that you use while the final rate is being established.

- Receive more than \$35 million in **direct** federal funding. In accordance with [Appendix VII\(D\)\(1\)\(b\)](#), a government agency that receives more than \$35 million in direct federal funding must submit an indirect cost rate proposal to its cognizant agency for indirect costs. (Therefore, the recipient must have a negotiated rate and would not qualify to use the de minimis indirect cost rate option.)

The de minimis rate does not require documentation to justify its use, and qualifying recipients and subrecipients may use it indefinitely. Once elected, recipients or subrecipients must use the de minimis rate for all federal awards until they choose to receive a negotiated rate.

**Figure 5. How to calculate MTDC in accordance with [2 CFR §200.1](#)**

Include these costs	Exclude these costs
All direct salaries and wages, and applicable fringe benefits	Equipment
All direct materials and supplies	Capital expenditures (defined in <a href="#">2 CFR §200.1</a> )
All direct services	Charges for patient care
All direct travel	Rental costs
Up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). <b>For new federal awards issued after October 1, 2024, this threshold increases to \$50,000.</b>	The portion of each subaward in excess of \$25,000. <b>For new federal awards issued after October 1, 2024, this threshold increases to \$50,000.</b>
	Tuition remission
	Scholarships and fellowships
	Participant support costs (defined in <a href="#">2 CFR §200.1</a> )
	Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs and with the approval of the cognizant agency for indirect costs.



## **Cost allocation plans and indirect cost proposals (for states, local governments and Indian tribes) ([2 CFR §200.416](#))**

If you choose not to use the de minimis rate or do not qualify for it – and you want to charge indirect costs to federal awards – then you must prepare documentation within six months after the close of your fiscal year to support an indirect cost rate. The documentation may include both an indirect cost rate proposal and a cost allocation plan.

Individual departments of a governmental unit typically charge federal awards for indirect costs through an indirect cost rate. A separate indirect cost rate proposal for each operating department is usually necessary to claim indirect costs under federal awards. As defined in [2 CFR §200.1](#), an indirect cost rate proposal is the documentation a recipient prepares to substantiate its request to establish an indirect cost rate as described in appendices III through VII and appendix IX to Part 200.

Indirect costs include:

- (1) The indirect costs originating in each operating department of the state, local government or Indian tribe carrying out federal awards (for example, the departmental director's salary and associated fringe benefits).
- (2) The cost of central government services distributed through the central service cost allocation plan and not otherwise treated as direct costs. Examples of centralized service costs may include motor pools, computer centers, purchasing and accounting.

If you, as the recipient or subrecipient, plan to claim a portion of centralized service costs in proportion to the award's activities, then you need a cost allocation plan to establish a process in which you can identify these central service costs and reasonably and consistently assign them to benefitted activities.

Appendices V, VI and VII to Part 200 list the requirements for developing and submitting cost allocation plans and indirect cost rate proposals.

### **Different types of indirect cost rates**

The Uniform Guidance defines different types of indirect cost rates for state and local governments, including provisional, final, predetermined, and fixed. Refer to Appendix VII(B) to Part 200. Most commonly, these governments use a provisional rate, pending the establishment of a "final" rate for that period. Other less common indirect rates include a predetermined rate and a fixed rate with carryforward.

When you use a provisional rate, you will base the actual costs on a prior year – usually two years' prior audited costs. This allows you to estimate your rate so that you may recover some of your indirect costs during the current fiscal year. However, you must true up the provisional rate to the actual rate. After the fiscal year concludes, you will calculate your final rate. If your provisional rate exceeded your final rate, then you over-recovered indirect costs and must pay back the difference.

## How to prepare and potentially submit an indirect cost rate proposal and cost allocation plan (only major governments submit for approval)

You can find authoritative guidance for developing cost allocation plans and indirect cost rate proposals in the appendices to Part 200, as described in **Figure 6** below, and as outlined in [2 CFR §200.414](#).

**Figure 6. Authoritative guidance for developing cost allocation plans and indirect cost rate proposals**

Entity type	Appendix title	Reference
State and local government	Governmentwide Central Service Cost Allocation Plan	<a href="#">Appendix V to Part 200</a>
State and local government	States and Local Government and Indian Tribe Indirect Cost Proposals	<a href="#">Appendix VII to Part 200</a>
Institutions of Higher Education	Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)	<a href="#">Appendix III to Part 200</a>
Hospitals	Hospital Cost Principles	<a href="#">Appendix IX to Part 200</a>
Public assistance agencies (Department of Social and Health Services funding)	Public Assistance Cost Allocation Plans	<a href="#">Appendix VI to Part 200</a>
Nonprofit organizations	Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations	<a href="#">Appendix IV to Part 200</a>

### Certification requirements ([2 CFR §200.415](#))

A proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a federal cognizant agency for indirect costs **or maintained on file by the recipient, must be certified by the recipient** using the “Certificate of Cost Allocation Plan” or “Certificate of Indirect Costs,” as set forth in appendices III through VII, and IX to Part 200. (Refer to **Figure 6** above for the appendix that applies to you.)

The certificate must be signed on behalf of the recipient by a person no lower than the vice president or chief financial officer of the recipient that submits the proposal.

### Limitations to the indirect cost rate ([2 CFR §200.414](#))

All federal agencies must accept negotiated indirect cost rates. A federal agency may use a rate different from the negotiated rate for either a class of federal awards or a single federal award only when required by federal statute or regulation, or when approved by the awarding federal agency in accordance with §200.414(c)(3).

If you are subject to legislation or regulation that limits the indirect cost rate for a particular federal award, you must still support your indirect cost rate – you just cannot claim more than the award allows. However, you may claim less than your supported indirect cost rate if you choose.

### Submission requirements

For a state or local government indirect cost rate proposal prepared in accordance with [Appendix VII to Part 200](#):

- A governmental department or agency unit that receives more than **\$35 million in direct federal funding** must submit its indirect cost rate proposal to its cognizant agency for indirect costs (term defined in [2 CFR §200.1](#). Refer to the next section for how to identify your cognizant agency for indirect costs).
- Any governmental department or agency unit must submit its proposal if its cognizant agency for indirect costs requests it.
- If you only receive funds as a subrecipient, then the pass-through entity is responsible for negotiating and monitoring your indirect costs.
- All governmental departments or agency units should maintain their proposal and related supporting documentation for audit.

For a state or local governmentwide central service cost allocation plan prepared in accordance with [Appendix V to Part 200](#):

- States must submit their plans to the U.S. Department of Health and Human Services.
- A major local government – one that receives more than **\$100 million in direct federal funding** – must submit its plan to its cognizant agency for indirect costs annually.
- A local government must also submit its plan if its cognizant agency for indirect costs requests it.
- If a local government only receives funds as a subrecipient, then the pass-through entity is responsible for monitoring your plan.
- All governments should maintain their plan and related records for audit.

Recipients who maintain their cost allocation plans on file still must certify them in accordance with the Uniform Guidance. Your federal awarding agency or pass-through entity could disallow costs if you do not certify your plan.

## How to identify your cognizant agency for indirect costs

You should review **Figure 7** below to determine if you have an assigned federal cognizant agency for indirect costs. Some federal agencies continue to be responsible for certain governmental entities. If your government type is not included, then:

- For central service cost allocation plans, your cognizant agency is the federal agency with the largest dollar value of **total** federal awards with a governmental unit. Review your Schedule of Expenditures of Federal Awards to determine this.
- For indirect cost rates and departmental indirect cost allocation plans, your cognizant agency is the federal agency with the largest dollar value of **direct** federal awards with a governmental unit or component, as appropriate. Review your Schedule of Expenditures of Federal Awards to determine this.

Once designated as the cognizant agency for indirect costs, the federal agency must remain so for a period of five years.

**Figure 7. Assigned cognizant agency for indirect costs**  
([Appendix V of Part 200\(f\)](#))

Federal agency	Government type
Department of Health and Human Services	States, hospitals, libraries and health districts
Department of the Interior	Indian tribal governments, territorial governments, state and local park and recreation districts
Department of Labor	State and local labor departments
Department of Education	School districts and state and local education agencies
Department of Agriculture	State and local agriculture departments
Department of Transportation	State and local airport and port authorities and transit districts
Department of Commerce	State and local economic development districts
Department of Housing and Urban Development	State and local housing and development districts
Environmental Protection Agency	State and local water and sewer districts

## Guidance on specific cost types

The Uniform Guidance provides information about the allowability of certain costs in the last section of [Subpart E](#) (2 CFR §200.420–.476). If this information differs from your federal award's terms, the federal award governs.

In addition, all costs must meet all of the allowability requirements of Subpart E of the Uniform Guidance. Refer to Chapters 1 and 2 of this section for more information on allowable cost requirements.

This chapter discusses the allowability of selected cost items for states, local governments and Indian tribes. Since it is common for recipients to charge compensation-related costs to federal awards, this chapter also identifies some of the key requirements and standards for charging compensation and fringe benefits to federal awards.

### Selected cost items included

The information shown in **Figure 8** on the next page is partially extracted from Part 3 of the 2024 *Compliance Supplement*. The table lists the selected items of cost along with a brief description of their allowability. This summary is helpful, but you should not rely on it exclusively – rely primarily on the linked references to 2 CFR Part 200.



**For new federal awards issued after October 1, 2024, the Uniform Guidance will adopt changes to many of the various regulations listed in Figure 8 on the next page. In most cases, the changes are clarifications.**



**Figure 8. Select items of cost for states, local governments and Indian tribes**

*Nonprofit organizations are not addressed in this table. Refer to the regulation for more guidance.*

Select item of cost	Uniform Guidance reference	States, local governments and Indian tribes	Institutions of higher education
Advertising and public relations costs	<a href="#">§200.421</a>	Allowable with restrictions	Allowable with restrictions
Advisory councils	<a href="#">§200.422</a>	Allowable with restrictions	Allowable with restrictions
Alcoholic beverages	<a href="#">§200.423</a>	Unallowable	Unallowable
Alumni/ae activities	<a href="#">§200.424</a>	Not specifically addressed	Unallowable
Audit services	<a href="#">§200.425</a>	Allowable with restrictions	Allowable with restrictions
Bad debts	<a href="#">§200.426</a>	Unallowable	Unallowable
Bonding costs	<a href="#">§200.427</a>	Allowable with restrictions	Allowable with restrictions
Collection of improper payments	<a href="#">§200.428</a>	Allowable	Allowable
Commencement and convocation costs	<a href="#">§200.429</a>	Not specifically addressed	Unallowable with exceptions
Compensation – personal services	<a href="#">§200.430</a>	Allowable with restrictions: special conditions apply (e.g., §200.430(i)(5))	Allowable with restrictions: special conditions apply (e.g., §200.430(h))
Compensation – fringe benefits	<a href="#">§200.431</a>	Allowable with restrictions	Allowable with restrictions, special conditions apply
Conferences	<a href="#">§200.432</a>	Allowable with restrictions	Allowable with restrictions
Contingency provisions	<a href="#">§200.433</a>	Unallowable with exceptions	Unallowable with exceptions
Contributions and donations	<a href="#">§200.434</a>	Unallowable if made by a non-federal entity; not reimbursable but value may be used as cost sharing (made to non-federal entity)	Unallowable if made by a non-federal entity; not reimbursable but value may be used as cost sharing (made to non-federal entity)



Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements	<a href="#">§200.435</a>	Allowable with restrictions	Allowable with restrictions
Depreciation	<a href="#">§200.436</a>	Allowable with qualifications	Allowable with qualifications
Employee health and welfare costs	<a href="#">§200.437</a>	Allowable with restrictions	Allowable with restrictions
Entertainment costs	<a href="#">§200.438</a>	Unallowable with exceptions	Unallowable with exceptions
Equipment and other capital expenditures	<a href="#">§200.439</a>	Allowable based on specific requirements	Allowability based on specific requirements
Exchange rates	<a href="#">§200.440</a>	Allowable with restrictions	Allowable with restrictions
Fines, penalties, damages and other settlements	<a href="#">§200.441</a>	Unallowable with exceptions	Unallowable with exceptions
Fund raising and investment management costs	<a href="#">§200.442</a>	Unallowable with exceptions	Unallowable with exceptions
Gains and losses on disposition of depreciable assets	<a href="#">§200.443</a>	Allowable with restrictions	Allowable with restrictions
General costs of government	<a href="#">§200.444</a>	Unallowable with exceptions	Not specifically addressed
Goods or services for personal use	<a href="#">§200.445</a>	Good/services – unallowable; Housing – allowable with restrictions	Good/services – unallowable; Housing – allowable with restrictions
Idle facilities and idle capacity	<a href="#">§200.446</a>	Idle facilities – unallowable with exceptions; idle capacity – allowable with restrictions	Idle facilities – unallowable with exceptions; idle capacity – allowable with restrictions
Insurance and indemnification	<a href="#">§200.447</a>	Allowable with restrictions	Allowable with restrictions
Intellectual property	<a href="#">§200.448</a>	Allowable with restrictions	Allowable with restrictions
Interest	<a href="#">§200.449</a>	Allowable with restrictions	Allowable with restrictions

Lobbying	<a href="#">§200.450</a>	Unallowable	Unallowable; special additional restrictions
Losses on other awards or contracts	<a href="#">§200.451</a>	Unallowable (however, they are required to be included in the indirect cost rate base for allocation of indirect costs)	Unallowable (however, they are required to be included in the indirect cost rate base for allocation of indirect costs)
Maintenance and repair costs	<a href="#">§200.452</a>	Allowable with restrictions	Allowable with restrictions
Materials and supplies costs, including costs of computing devices	<a href="#">§200.453</a>	Allowable with restrictions	Allowable with restrictions
Memberships, subscriptions and professional activity costs	<a href="#">§200.454</a>	Allowable with restrictions; unallowable for lobbying organizations	Allowable with restrictions; unallowable for lobbying organizations
Organization costs	<a href="#">§200.455</a>	Unallowable except federal prior approval	Unallowable except federal prior approval
Participant support costs	<a href="#">§200.456</a>	Allowable with prior approval of the federal awarding agency	Allowable with prior approval of the federal awarding agency
Plant and security costs	<a href="#">§200.457</a>	Allowable; capital expenditures are subject to §200.439	Allowable; capital expenditures are subject to §200.439
Pre-award costs	<a href="#">§200.458</a>	Allowable with restrictions	Allowable with restrictions
Professional service costs	<a href="#">§200.459</a>	Allowable with restrictions	Allowable with restrictions
Proposal costs	<a href="#">§200.460</a>	Allowable with restrictions	Allowable with restrictions
Publication and printing costs	<a href="#">§200.461</a>	Allowable with restrictions	Allowable with restrictions
Rearrangement and reconversion costs	<a href="#">§200.462</a>	Allowable (ordinary and normal)	Allowable (ordinary and normal)
Recruiting costs	<a href="#">§200.463</a>	Allowable with restrictions	Allowable with restrictions
Relocation costs of employees	<a href="#">§200.464</a>	Allowable with restrictions	Allowable with restrictions

Rental costs of real property and equipment	<a href="#">§200.465</a>	Allowable with restrictions	Allowable with restrictions
Scholarships and student aid costs	<a href="#">§200.466</a>	Not specifically addressed	Allowable with restrictions
Selling and marketing costs	<a href="#">§200.467</a>	Unallowable with exceptions	Unallowable with exceptions
Specialized service facilities	<a href="#">§200.468</a>	Allowable with restrictions	Allowable with restrictions
Student activity costs	<a href="#">§200.469</a>	Unallowable unless specifically provided for in the federal award	Unallowable unless specifically provided for in the federal award
Taxes (including Value Added Tax)	<a href="#">§200.470</a>	Allowable with restrictions	Allowable with restrictions
Telecommunication costs and video surveillance costs	<a href="#">§200.471</a>	Allowable with restrictions	Allowable with restrictions
Termination costs	<a href="#">§200.472</a>	Allowable with restrictions	Allowable with restrictions
Training and education costs	<a href="#">§200.473</a>	Allowable for employee development	Allowable for employee development
Transportation costs	<a href="#">§200.474</a>	Allowable with restrictions	Allowable with restrictions
Travel costs	<a href="#">§200.475</a>	Allowable with restrictions	Allowable with restrictions
Trustees	<a href="#">§200.476</a>	Not specifically addressed	Allowable with restrictions

## Some basics about “compensation – personal services” ([2 CFR §200.430](#))

Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits addressed in §200.431.

Compensation costs are allowable to the extent that they satisfy the requirements of the Uniform Guidance and the total compensation for individual employees:

1. Is reasonable for the services rendered and conforms to the recipient’s or subrecipient’s established written policy that it consistently applied to both its federal and non-federal activities. Refer to §200.430(3)(b) for more information about what constitutes reasonableness when it comes to compensation.

**Institutions of higher education have additional requirements not covered here; refer to §200.430(h) for details.**

2. Follows an appointment made in accordance with the recipient's or subrecipient's laws, rules or written policies, and meets the requirements of federal statute, where applicable
3. Is determined and supported as provided in paragraph (i) of this section (or (g) after the 2024 Uniform Guidance revisions), when applicable. See the **Figure 9** below for seven documentation standards for personnel expenses.

**Figure 9. Standards of documentation of personnel expenses**

<b>Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:</b>	
<b>Be supported by an internal control system</b>	Be supported by an internal control system that provides reasonable assurance that the charges are accurate, allowable and properly allocated
<b>Be incorporated into official records</b>	Be incorporated into the recipient's or subrecipient's official records (such as a timesheet)
<b>Reflect total activity</b>	Reasonably reflect the total activity for which the employee is compensated by the recipient or subrecipient, not exceeding 100% of compensated activities
<b>Be on an integrated basis</b>	Encompass federally assisted and all other activities compensated by the recipient or subrecipient on an integrated basis (such as one timesheet to account for all time worked) but may include the use of subsidiary records as defined in the recipient's or subrecipient's written policy (such as an Excel template; but you must describe it in policy and retain it as an official record)
<b>Comply with policy</b>	Comply with the recipient's or subrecipient's established accounting policies and procedures

**Support distribution to activities or cost objectives**

Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on:

- More than one federal award
- A federal award and a non-federal award
- An indirect cost activity and a direct cost activity
- Two or more indirect activities allocated using different allocation bases
- An unallowable activity and a direct or indirect cost activity

**Avoid budget estimates as sole support**

Budget estimates (estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim purposes, provided that:

- The system for establishing the estimates produces reasonable approximations of the activity performed.
- Significant changes in the related work activity (as defined by the recipient's or subrecipient's written policies) are promptly identified and entered into the records. Short-term fluctuations (such as one or two months) between workload categories do not need to be considered if the distribution of salaries and wages is reasonable over the longer term.
- The recipient's or subrecipient's system of internal controls includes processes to perform periodic after-the-fact reviews of interim charges made to a federal award based on budget estimates. All necessary adjustments must be made so that the final amount charged to the federal award is accurate, allowable and properly allocated.

**Additional documentation information**

We will cover a few important topics here, as shown in **Figures 10 and 11** on the next page, but refer to §200.430(i)(2)–(8) for complete information on the documentation standards for personnel expenses. **After the Uniform**



**Guidance revisions for new federal awards issued after October 1, 2024, standards for documentation of personnel expenses will be found under §200.430(g)(2)–(8).**

Figure 10. Additional documentation-related topics

Topic	Reference
<b>Supporting nonexempt employees' charges</b>	Charges for salaries of nonexempt employees, in addition to the supporting documentation described in §200.430, must also be supported by records indicating the total number of hours worked each day.
<b>Cost sharing</b>	Salaries and wages of employees used in meeting cost sharing requirements on federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from federal awards.
<b>Substitute processes or systems for allocating salaries and wages to federal awards</b>	States, local governments and Indian tribes may use substitute processes or systems for allocating salaries and wages to federal awards either in place of or in addition to records described in §200.430 if approved by the cognizant agency for indirect cost.  Such systems may include, but are not limited to, random moment sampling, "rolling" time studies, case counts or other quantifiable measures of work performed.

Figure 11. Additional compensation-related topics

Topic	Reference
<b>Professional activities outside the recipient or subrecipient</b>	Allowable with stipulations, refer to §200.430(c) for more information.
<b>Statutory compensation ceilings</b>	The allowable compensation for certain employees is subject to a ceiling in accordance with federal statute. Refer to §200.430(d)(2) for more information.
<b>Incentive compensation</b>	These costs may be allowable subject to stipulations, refer to §200.430(f) for more information.

## Some basics about "compensation – fringe benefits" ([2 CFR §200.431](#))

Fringe benefits are allowances and services employers provide to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions and unemployment benefits.

Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are both reasonable and required by law, an organization-employee agreement, or an established policy of the recipient or subrecipient.

### Leave benefits

The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from their job are allowable if all the following criteria are met:

1. They are provided under established written leave policies.
2. The costs are equitably allocated to all related activities, including federal awards.
3. The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the recipient, subrecipient or a specified grouping of employees. (Refer to the regulation for details and **Figure 12** below for a summary of the requirements.)

**Figure 12. Allowable leave costs according to the basis of accounting**

	Cash basis	Accrual (GAAP) basis
You may charge leave granted to employees to the federal award when:	Leave is taken and paid for	Leave is earned/accrued  Allowable leave costs are the lesser of the amount accrued or funded (or otherwise allocable to the federal award)
You may charge unused leave paid out at employee retirement or termination to a federal award when:	Leave is cashed out and paid for. <b>It must be allocated as a general administrative expense to all activities – you cannot charge it as a direct cost, see <a href="#">OMB FAQ Q-104</a>.</b>	N/A – you may not charge any cost to the federal award

### Other traditional forms of fringe benefits

Some additional fringe benefits include employer contributions for social security, employee life, health, unemployment and workers compensation insurance (except as indicated in §200.447), pension plan costs and other similar benefits.

These costs are allowable, provided such benefits are permitted under the recipient's or subrecipient's established written policies. The recipient or subrecipient must allocate fringe benefits to federal awards and all other activities in a manner consistent with the pattern of benefits attributable to each specific employee or group(s) of employees whose salaries and wages are chargeable to such federal awards and other activities, and charged as direct or indirect costs following the recipient's or subrecipient's accounting practices. For information about additional types of fringe benefits discussed in this regulation, refer to **Figure 13** below.

**Figure 13. Additional types of fringe benefits and allowability**

Type of fringe benefit	Allowability
<b>Self-insurance reserves (unemployment, workers compensation)</b>	Provisions for a reserve are allowable with stipulations. Refer to §200.431(e)(1) for more information.
<b>Life insurance on top officials</b>	Allowable if they represent additional compensation AND the recipient or subrecipient is not named as beneficiary. Refer to §200.431(e)(2) for more information.
<b>Cost of personal use of automobiles (including transportation to and from work)</b>	Not allowable, even if reported as taxable income. Refer to §200.431(f) for more information.
<b>Pension plan costs and post-retirement health plans</b>	Allowable with stipulations. Refer to §200.431(g) for more information.
<b>Severance pay</b>	Allowable with stipulations. Refer to §200.431(i) for more information.

### Assigning fringe benefit costs

Recipients and subrecipients have two options for assigning allowable fringe benefit costs, as described in §200.431(d). You may assign fringe benefits to cost objectives by:

- Identifying specific benefits to each specific employee
- Allocating them based on entity-wide salaries and wages of the employees receiving the benefits. Refer to the regulation for additional information.



# Overview of common administrative requirements

In addition to understanding the Cost Principles, the people who manage and oversee federal awards are responsible for determining the applicable administrative requirements, also known to auditors as compliance requirements. You can identify them by reviewing your award's terms and conditions, which should reference the Uniform Guidance, as well as applicable federal statutes and regulations affecting the federal award.

Another important source to confirm your understanding of common administrative requirements is the Office of Federal Financial Management's annual [Compliance Supplement](#). It provides information for auditors but can help you, too. As the *Compliance Supplement* is updated each year, you must ensure you review the appropriation version for your fiscal year. Here are some parts you should review:

- Part 2 has a matrix of federal programs included in the supplement. It is organized by Assistance Listing Number and notes each program's compliance requirements subject to audit.
- Part 3 details the common compliance requirements, audit objectives and suggested audit procedures for them.
- Part 4 has additional information about individual programs, including the statutes and regulations governing their administration, and the compliance requirements to be tested (using information from Part 3). The programs are organized by federal agency.
- Part 6, Appendix 2, suggests specific internal controls for the common compliance requirements.

Our focus in this section is the common administrative requirements, including one special test (federal programs may have many unique special tests and provisions, but we only cover one that is common for the federal awards that local governments receive).

We present the following chapters in similar order to Part 3 of the *Compliance Supplement*. In each chapter, we provide an overview of the requirement, explain some of the audit procedures you can expect, and point you to additional resources about the requirement.

- Chapter 1: Allowable activities and costs
- Chapter 2: Cash management
- Chapter 3: Eligibility
- Chapter 4: Equipment and real property management
- Chapter 5: Cost sharing, level of effort, earmarking
- Chapter 6: Period of performance
- Chapter 7: Procurement
- Chapter 8: Suspension and debarment
- Chapter 9: Program income
- Chapter 10: Reporting
- Chapter 11: Subrecipient monitoring
- Chapter 12: Special test: Wage rate requirements (Davis-Bacon Act and related acts)

You must understand any applicable requirements and have internal controls in place to ensure compliance with them. To learn more about designing internal controls, see Section 3 of this handbook.



## Allowable activities and costs

You must only engage in allowable activities when managing federal awards, whether that be providing education, training or housing, or constructing roads or buildings. When engaged in those activities, you may only incur and charge allowable costs to your federal award. Using award funds for unallowable activities or costs can lead to auditors questioning your spending, and your awarding agency could ask you to repay those costs. Before spending your award, it is important to understand what activities and costs are allowable.

This chapter summarizes some basic requirements for allowable activities and costs. It concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

Each federal program's requirements are unique, so you should identify the allowable and unallowable activity and cost requirements pertaining to your awards. To do this, you should first carefully read your federal award's terms and conditions, as well as any applicable federal statutes or regulations affecting the federal program. When you have questions, ask your awarding agency.

#### Establishing written procedures for determining allowable costs

The Uniform Guidance also requires you to establish written procedures for determining the allowability of costs in accordance with the Cost Principles and your federal award's terms and conditions ([2 CFR §200.302\(7\)](#)). When you have policies that provide direction to employees and outline expected internal controls, this can help ensure you only charge allowable costs to awards. **Note:** this requirement does not refer to your disbursement policies. It relates to how you ensure compliance with the federal award.

#### When determining allowable costs, follow the Cost Principles

You must comply with the Uniform Guidance Cost Principles when determining the allowability of a cost (Uniform Guidance, [Subpart E](#)). We cover the Cost Principles in Section 1 of this handbook, including the basic cost considerations in Chapter 1, direct and indirect costs in Chapter 2, and specific items of cost in Chapter 3. (If you are a hospital district, refer to cost principles in Uniform Guidance, [Appendix IX](#).)

You may have questions about a certain type of cost, such as whether the Uniform Guidance would allow you to charge conference or travel costs to a federal award. These are called specific items of cost, and we discuss them in Section 1, Chapter 3. You can also find information about the specific items of cost in the Uniform

Guidance starting with [2 CFR §200.420](#). However, in case of a discrepancy between the provisions of a specific federal award and the Uniform Guidance specific items of cost, the federal award governs.

In some cases, you may find it difficult to determine the reasonableness or allocability of certain cost items. To avoid future disallowances or disputes, you may request your awarding agency's prior written approval before incurring certain special or unusual costs. In some cases, prior approval is specifically required (see [2 CFR §200.407](#)). **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions remove some prior written approval requirements to reduce recipient burden.**



## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over allowable activities and costs, and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Select a sample of expenditures and ensure they were for an allowable activity, meet allowable cost criteria and comply with the Uniform Guidance Cost Principles
- If you use the de minimis indirect cost rate (see Chapter 2 of Section 1), the auditor will perform tests to ensure you used and calculated it appropriately. Refer to the *Compliance Supplement* for details on suggested tests.
- If you have an indirect cost rate or central service cost allocation plan, the auditor will likely perform additional testing to ensure you comply with requirements. Refer to the *Compliance Supplement* for details on suggested tests.

## Learn more about allowable activities and costs

*Source of governing requirements for allowable costs:*

- Uniform Guidance, [Subpart E](#), Cost Principles
- Written procedures for determining allowability of costs: [2 CFR §200.302\(7\)](#)
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program

You might also reference Part 4 of the [Compliance Supplement](#). It includes information for auditors about specific federal programs, including allowable activity and allowable cost information. We suggest you reference the *Compliance Supplement* to confirm your understanding of federal award requirements.

## Cash management

Cash management involves how the awarding agency and the government handle payments, between themselves and to third parties, to cover the federal program costs. The awarding agency will require you to use one of several methods depending on the circumstances. Generally, you must minimize the time between the awarding agency's transfer of funds and your disbursement of them.

This chapter summarizes three payment methods that recipients and subrecipients other than states must use when managing federal funds. It also discusses recipients' and subrecipients' responsibilities for remitting interest earned on advance payments to the federal government. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional cash management resources.

### An overview of requirements

The Uniform Guidance outlines cash management requirements in [2 CFR §200.305](#). In accordance with [2 CFR §200.302\(b\)\(6\)](#), all recipients and subrecipients must establish written procedures to implement these cash management requirements. Further, states must comply with [31 CFR part 205](#) and the Treasury Financial Manual 4A-2000, "[Overall Disbursing Rules For All Federal Agencies](#)."

#### Cash management requirements for non-state recipients and subrecipients

The Uniform Guidance allows awarding agencies to authorize their recipients to use one of three payment methods, depending on the circumstances: advance payment, reimbursement or working capital advance. Awarding agencies must allow you to use the advance payment method if you qualify, although exceptions exist. If you do not meet the qualifications, the Uniform Guidance recommends the reimbursement method. **Figure 14** on the next page summarizes the three payment methods.

**Figure 14. The Uniform Guidance payment methods**

Method	How it works
<i>Advance payment</i>	<p>The awarding agency issues payments before the recipient or subrecipient disburses funds to any third parties (such as subrecipients, contractors or beneficiaries). To qualify, the recipient or subrecipient must maintain or demonstrate the willingness to maintain both:</p> <ul style="list-style-type: none"> <li>• Written procedures that minimize the time between the transfer of funds and disbursement by the recipient or subrecipient</li> <li>• Financial management systems that meet the standards for fund control and accountability as established by <a href="#">§200.303</a></li> </ul> <p>A recipient or subrecipient typically requests advance payment for only the supported costs it is prepared to pay out (in other words, the minimum amounts needed). Then, once the recipient or subrecipient receives the advance payment, they release the funds to the third parties as soon as administratively feasible. For example, some awarding agencies require a three-day turnaround, meaning the recipient has three days to issue payments once it has received the awarding agency's advance.</p>
<i>Reimbursement</i>	<p>The recipient or subrecipients pays for the program costs then requests reimbursement from the awarding agency.</p> <p>In certain circumstances, the reimbursement method is preferred. A few examples include when the advance payment requirements cannot be met, when a federal award is for construction or when the federal award constitutes a minor portion of the project.</p>
<i>Working capital advance (rare)</i>	<p>The awarding agency provides an initial cash advance then reimburses the recipient or subrecipient for its actual cash disbursement.</p> <p>An awarding agency might approve this method for a recipient or subrecipient that cannot meet the criteria for advance payments and lacks sufficient working capital needed to use the reimbursement method (meaning, they cannot afford to front the cash for federal program costs).</p>

**Interest earnings for advance payments**

A recipient or subrecipient must maintain any advance payments in interest-bearing accounts, with some exceptions. If you earn interest on federal award money, maintain a tracking record so you can demonstrate how much you have earned. If it exceeds \$500, you must pay it to the U.S. Department of Health and Human Services (see instructions [here](#)).

## Other important points about cash management

The Uniform Guidance makes several additional points that recipients and subrecipients should know about cash management, including:

- *Retainage* – You must not seek reimbursement for retainage until you disburse the funds directly to the contractors or to an escrow/trust account ([2 CFR §200.305\(b\)\(3 and 4\)](#)).
- *Program income, rebates, refunds, contract settlements, audit recoveries, interest earnings* – If you have any of these sources of money related to your federal program, spend them before requesting additional cash payments from your awarding agency ([2 CFR §200.305\(b\)\(5\)](#)).

## About the auditor’s procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over cash management requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Select a sample of cash drawdowns or reimbursement requests and ensure they trace to supporting records. Depending on the method your awarding agency authorized you to use, the auditor will test expenditures and verify that you either (1) minimized the time between drawdown or disbursement, or (2) incurred (or paid for cash-basis entities) the expenditures before you sought reimbursement.
- Review records to determine if you earned more than \$500 of interest per year, and if so, verify you remitted it to the federal government.

## Learn more about cash management

*Source of governing requirements:*

- [2 CFR §200.302\(b\)\(6\)](#) requires written procedures to implement the requirements of [2 CFR §200.305](#)
- [2 CFR §200.305](#) Federal payment
- States only: [31 CFR part 205](#) and the Treasury Financial Manual 4A-2000, “[Overall disbursing rules for all federal agencies](#)”
- The federal award’s terms and conditions
- Any applicable federal statutes or regulations affecting the federal program

For states, or governments that receive program income or loans/ interest subsidies/ insurance, refer to the *Compliance Supplement* for suggested audit procedures.

## Eligibility

Eligibility involves how you ensure that program participants or groups of program participants/areas of service delivery meet the federal program's criteria to receive benefits, and how you ensure they receive the correct amount of benefits. For example, for people to receive low-income housing, they must meet certain income criteria. You must also correctly calculate their rent subsidy following the federal agency's requirements. It can also involve how you ensure subrecipients qualify to receive a subaward.

This chapter highlights some general eligibility requirements and recommendations, including your responsibilities when making subawards. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as suggestions for additional resources.

### An overview of requirements

Each federal program has its own unique eligibility requirements, so you must carefully read and understand the federal award's terms and conditions, any applicable federal statutes or regulations affecting the federal program and any program guidance before you administer benefits to program participants, deliver services to designated areas or provide subawards.

If you give subawards to one or more organizations, you must also ensure they comply with any eligibility requirements. You should address these risks when you monitor your subrecipients (see Chapter 11, Subrecipient Monitoring for more information).

The Uniform Guidance does not specifically require it, but you should consider implementing written procedures for determining eligibility requirements. Written procedures can help ensure your employees know how to properly process, approve and calculate individual benefits.

### About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over eligibility requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.



For compliance testing purposes, most local governments should expect an auditor to:

- **For eligibility on a per-person basis:**
  - Determine that your records or database include all people receiving benefits during the audit period
  - Select a sample of people receiving benefits to determine if they meet eligibility criteria in accordance with the program requirements. The auditor may need to address initial and continuing eligibility requirements, depending on the program. The auditor will also ensure you discontinued benefits when the period of eligibility expired.
  - Design audit procedures as needed to test your computer system's eligibility determinations, if you use such a system to determine eligibility
- **For eligibility of groups of individuals or area of service delivery:** Perform tests to determine if the areas served are eligible and benefits paid were calculated correctly
- **For eligibility of subrecipients:** Determine eligibility requirements, sample awards made to subrecipients and verify subrecipients are eligible and amounts awarded are within funding limits

## Learn more about eligibility

Each federal program's eligibility requirements are unique. To identify all the requirements, you must carefully read and understand the federal award's terms and conditions, as well as any applicable federal statutes or regulations affecting the federal program. You should also consult any program guidance issued by your awarding agency.

You may also reference Part 4 of the [Compliance Supplement](#) to confirm your understanding of eligibility requirements for major programs included in this section.

# Equipment and real property management

When using federal funds to purchase equipment or purchase/improve real property, you agree to conditions lasting far into the future. These conditions include how you must use, manage and dispose of the property. For example, you must track and inventory equipment every two years, and you may need to compensate the federal agency when you sell equipment or real property that exceeds \$5,000 in fair market value.

This chapter summarizes the requirements for using, managing and disposing of equipment and real property purchased with federal funds. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

## An overview of requirements

Though this chapter focuses on the requirements for equipment and real property, the Uniform Guidance's Property Standards ([2 CFR §200.310–.316](#)) contains more information about requirements for insurance, federally-owned and exempt property, supplies and intangible property.

## Equipment

Equipment is defined in [2 CFR §200.1](#). It includes tangible personal property, including information technology systems, that has:

- A useful life of more than one year
- A per-unit acquisition cost that equals or exceeds the lesser of the capitalization level established for financial statement purposes, or \$5,000. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will increase this threshold to \$10,000.**



States must use, manage and dispose of equipment in accordance with their state laws and procedures. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will expand this language to include Indian tribes.**



Other recipients and subrecipients, such as local governments, with conditional property titles must comply with restrictions in [2 CFR §200.313](#), as summarized below:

- **Equipment use restrictions:** You must use the equipment for the federal project or program for which it was acquired, as long as it is needed, whether or not the federal award continues to support it. You must not dispose of or encumber the equipment without the awarding agency's approval.

You must allow other federally funded projects or programs to use the equipment if it does not interfere with the original intended use. Similarly, you may also use the equipment for non-federally funded projects or programs if does not interfere with the purpose for which it was originally acquired. You should consider charging user fees as appropriate (no less than what a private company would charge for similar services). Refer to the regulation for how to determine use priority and other details.

- **Management requirements:** You must:
  - Maintain up-to-date property records that have key information about the asset, including the property's funding source, the Federal Award Identification Number (FAIN), and the federal agency's contribution toward the original purchase. Refer to [2 CFR §200.313\(d\)\(1\)](#) for the required elements.
  - Conduct a physical inventory and reconcile the inventory results to the property records at least once every two years
  - Develop an internal control system to prevent property loss, damage and theft
  - Investigate any property loss, damage or equipment theft, and notify the awarding agency if it will affect the program
  - Put regular maintenance procedures in place to ensure the property is in proper working condition
  - Develop sales procedures before selling any property to ensure the highest possible return
- **Disposition requirements:** Your federal award's terms and conditions may require you to request disposition instructions from the awarding agency when you no longer need equipment exceeding \$5,000 fair market value acquired under the award for federal projects or programs. The federal agency is entitled to its share of the proceeds from the sale. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions increase this threshold to \$10,000.** Refer to the regulation for further details.



When included in the federal award's terms and conditions, the awarding agency may allow you to keep the equipment with no further obligation.

## Real property

In accordance with [2 CFR §200.311](#), recipients or subrecipients that purchase real property with federal funds must use it as long as needed for the originally authorized purpose. During this time, you must not dispose of or encumber the title or other interests except as provided by the federal agency. When you no longer need the real property for the originally authorized purpose, you must obtain disposition instructions from the awarding agency. The instructions must specify one of following disposition methods:

- 1) You retain the title after compensating the federal agency.
- 2) You sell the property and compensate the federal agency for its interest in the property.
- 3) You transfer the title to the federal agency or a third party designated or approved by the federal agency.



**For new federal awards issued after October 1, 2024, the Uniform Guidance will include requirements for how recipients or subrecipients must conduct appraisals.**

The regulation also explains how to calculate how much may be owed to you or the federal agency upon disposition. Read the regulation to ensure you fully understand all the requirements.

## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over equipment and real property management requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.



For compliance testing purposes, most local governments should expect an auditor to:

### Equipment

- Trace equipment purchases to property records and verify they have all the required information
- Verify you completed the required physical inventory of equipment and resolved any differences
- Sample equipment acquired under federal awards from your property records and inspect it to ensure you appropriately safeguard and maintain it
- Test equipment dispositions, ensure you recorded them in the property records and verify you reimbursed the federal agency the proper amount

### Real property

- Test dispositions of real property acquired or improved under federal awards to ensure you complied with applicable requirements

## Learn more about equipment

*Source of governing requirements:*

- The Uniform Guidance's Property Standards ([2 CFR §200.310–.316](#))
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program



# Cost sharing, level of effort, earmarking

When you accept a federal award, you may agree to certain types of financial commitments or obligations, such as cost sharing, level of effort or earmarking:



- **Cost sharing:** The awarding agency may require you to pay for some of the program or project costs, such as with local or state funds. **As part of the October 1, 2024, revisions, the Uniform Guidance will refer to “cost sharing” without using the term “matching” because matching is just one form of cost sharing.**
- **Level of effort (or maintenance of effort):** You may need to continue to provide the same amount of local financial support for a federal program or project, even though you receive federal funds.
- **Earmarking:** The award may require you to stay within certain spending thresholds for a specific activity or cost type, as well as specify minimum or maximum limits.

This chapter summarizes the requirements for these commitments and obligations. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

## An overview of requirements

Each federal program may have its own financial commitments and obligations, so you must carefully read the award’s terms and conditions. Regardless of the commitment or obligation, you must ensure you have sufficient records to support your compliance with each requirement.

### Cost sharing

An awarding agency might express the cost-sharing requirement as a percentage or a fixed amount. Depending on your award’s terms and conditions, allowable funding sources for fulfilling the cost-sharing requirement could include:

- Your use of local funds to pay federal program or project costs
- Your donations of real property to the federal program or project, including land, buildings or equipment
- Third-party in-kind contributions, such as volunteer time or donated property
- Program income

As described in [2 CFR §200.306\(b\)](#), for all federal awards, awarding agencies must accept any cost-sharing funds (including cash and third-party in-kind contributions, and funds committed by you as the recipient or subrecipient, or third parties) as part of your contributions to a program when the funds:

- *Are verifiable in the recipient's or subrecipient's records* (you must document and support it)
- *Are not included as contributions for any other federal award* (no double counting)
- *Are necessary and reasonable for achieving the federal award's objectives*
- *Are allowable under [Subpart E "Cost Principles"](#)* (see Section 1 of this handbook for more information)
- *Are not paid by the federal government under another federal award, except where the program's federal authorizing statute specifies that federal funds made available for the program can be applied to cost-sharing requirements of other programs* (cost sharing is your obligation; in general, you must not leverage other federally funded expenditures).
- *Are provided for in the approved budget when required by the federal agency*
- *Conforms to other applicable provisions of this part* (Uniform Guidance – 2 CFR §200).

To value your cost-sharing contribution, refer to the guidance in [2 CFR §200.306\(d-j\)](#). You must document in your financial records how you arrived at the value.

If you do not meet your cost-sharing contribution, contact your awarding agency. Typically, the agency will reduce your federal assistance so that you maintain the required ratio.

**Helpful hint:** You must support salary and wage costs used to meet cost-sharing requirements, just as if you were supporting them as an allowable cost. To the extent feasible, you should support volunteer services just as you would support the allocability of regular personnel costs.



## Level of effort

Your award may include the following requirements:

1) **Level of effort/maintenance of effort** – You may be required to maintain a certain service or spending commitment:

- a. Service commitment – The awarding agency requires you to provide a specified level of service from period to period.

For example, the awarding agency may require you to provide services to a certain number of participants, such as patients.

- b. Spending commitment – The awarding agency requires you to spend a certain amount of your own funds, as well as federal funds, to maintain specified activities from period to period.

For example, a federal agency may require that a recipient spends on services and administration no less than the average that it spent for the last three previous years. If the recipient does not comply, the federal agency may reduce federal funding by an amount proportional to how much the recipient reduced its expenditures.

2) **Supplement, not supplant** – You may be required to use federal funds to supplement, not supplant. In other words, you use the federal funds to supplement or add to your programs or projects, as opposed to supplanting or replacing your typical financial support.

For example, a school district would need to ensure each building receives its fair share of state and local funding, even though some buildings will receive extra Title I federal funding.

## Earmarking

Earmarking requirements generally require a recipient or subrecipient to spend a portion of the award money in a certain way, such as for a specified activity or in relation to the types of participants covered. The award may specify minimum or maximum limits.

For example, awarding agencies commonly use earmarks to limit administrative costs. In another example, a federal award may require recipients to spend at least 20% of the award on activities that help prevent substance misuse, while the remainder of the award will help people who misuse substances.



## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over cost sharing, level of effort and earmarking requirements, and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

### Cost sharing

- Verify that you met the required cost-sharing contributions, that the contributions were from an allowable source, that you valued the contributions appropriately, and that the contributions adhere to allowable cost/cost principles requirements

### Level of effort

- Maintenance of effort – Verify that you met the requirement and maintained proper support in your financial and other records.
- Supplement, not supplant – Test whether you used federal funds to provide services that:
  - You were required to make available under federal, state or local law (and were also made available by funds subject to a “*supplement, not supplant*” requirement)
  - Were provided with non-federal funds in the prior year

### Earmarking

- Earmarking – Verify the amounts recorded in your financial records comply with the earmarking requirement. The auditor will sample transactions or participants, depending on the requirement, to ensure you classified them properly.

## Learn more about cost sharing, level of effort and earmarking

You will find guidance on cost sharing in the Uniform Guidance at [2 CFR §200.306](#). However, each federal program's requirements are unique when it comes to cost sharing, level of effort and earmarking. You must carefully read each federal award's terms and conditions to identify the requirements, as well as any applicable federal statutes or regulations affecting the federal program.

## Period of performance

Period of performance is your federal award's start and end date, and it may include one or more budget periods. You may only charge allowable costs to a federal award during an approved budget period within its period of performance. Charging costs to an award outside of its period of performance could cause your auditor to question costs, which you may have to pay back to the awarding agency.

This chapter provides some key definitions and summarizes the period of performance requirements relating to charging pre-award costs, requesting extensions and closing out awards. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

Federal agencies and pass-through agencies must communicate to recipients and subrecipients the start and end dates of the period of performance and budget period(s), as required by [2 CFR §200.211\(b\)\(5\)-\(6\)](#) and [2 CFR §200.332\(a\)\(1\)\(v\)-\(vi\)](#), respectively. The Uniform Guidance defines period of performance and budget period at [2 CFR §200.1](#):

- **Period of performance** means the time interval between the federal award's start and end date, which may include one or more budget periods. While [2 CFR §200.211\(b\)\(5\)](#) requires the federal award to identify the period of performance, it does not commit the federal agency to fund the award beyond the currently approved budget period.
- **Budget period** means the time interval between the funded portion's start and end date, during which recipients and subrecipients are authorized to incur financial obligations of the funds awarded, including any funds carried over or other revisions pursuant to [2 CFR §200.308](#).

#### Incurring costs during the budget period

You must incur all costs during the approved budget period in accordance with [2 CFR §200.403\(h\)](#). If you do not spend all your federal award in one budget period, you may wish to carry forward unobligated balances to subsequent budget periods. However, you must obtain the federal agency's prior written approval unless it has waived this requirement in the federal award's terms and conditions. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions add a new provision for administrative closeout costs. Recipients will be allowed to incur administrative costs until the due date of the final report.**



## Charging pre-award costs

The Uniform Guidance defines pre-award costs at [2 CFR §200.458](#). **Pre-award costs** are those incurred before the start date of the federal award or subaward directly pursuant to the negotiation and in anticipation of the federal award where such costs are necessary for efficient and timely performance of the scope of work.

You may only charge pre-award costs if:

1. They would have been allowed if incurred after the federal award's start date
2. You obtain the federal agency's or pass-through agency's prior written approval

**Note:** The federal agency can waive this prior approval requirement and authorize recipients to incur project costs up to but not exceeding 90 calendar days before the award date, in accordance with [2 CFR §200.308](#).

## Requesting period of performance extensions

One-time extensions require the awarding agency's prior approval, unless the federal award's terms and conditions authorize the recipient to initiate a one-time extension of up to 12 months. For more details about these requirements, refer to [2 CFR §200.309](#) and [2 CFR §200.308](#).



**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions allow awarding agencies to approve one or more no-cost extensions – an extension of time that does not require the obligation of additional federal funds in accordance with 2 CFR §200.308(f)(10).**

## Closing out the award

Recipients must liquidate all financial obligations incurred under the federal award no later than 120 calendar days after the period of performance ends, in accordance with [2 CFR §200.344](#).



**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will require subrecipients to liquidate all financial obligations no later than 90 calendar days after the period of performance ends, or an earlier date as agreed upon between parties. The Uniform Guidance will also allow the federal or pass-through agency to approve extensions for the recipient or subrecipient, when justified.**

## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over period of performance requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Select a sample of cost transactions or journal entries to determine if you complied with the period of performance requirements, if the period of performance began or ended during the audit period
- Test transactions incurred before or at the beginning of the period of performance to verify that you did not incur them before the period started, unless you had prior written approval from the awarding agency to do so
- Test transactions charged toward the end of and after the period of performance to verify you incurred the costs within the period and paid them within the allowable liquidation period

## Learn more about the period of performance

Each federal program will have its own period of performance and budget period(s). You must read your federal award's terms and conditions to identify the requirements.

*Source of governing requirements:*

- [2 CFR §200.1](#), defines the terms period of performance, budget period, financial obligations and more
- [2 CFR §200.458](#) Pre-award costs
- [2 CFR §200.308](#) Revision of budget and program plans
- [2 CFR §200.309](#) Modifications to period of performance
- [2 CFR §200.344](#) Closeout
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program

# Procurement

Procurement requirements stipulate how you must procure goods and services that you purchase under a federal award. These requirements are often challenging for local governments and a common issue that leads to audit findings. To minimize future compliance issues, ensure your government has its own documented procurement procedures that include all local, state and federal requirements. And before procuring goods and services under a federal award, ensure your staff understand these procedures well enough to follow them.

This chapter summarizes key requirements that governments must follow when they procure goods and services under a federal award. It also outlines the thresholds and some compliance requirements for five procurement methods: micro-purchases, simplified acquisitions, sealed bids, competitive proposals and noncompetitive procurement. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

## An overview of requirements

The procurement requirements for states and Indian tribes differ from those for local governments. This section briefly references the requirements for states and Indian tribes, and then focuses on the requirements for local governments.

### States and Indian tribes

State agencies and Indian tribes must comply with [2 CFR §200.317](#), which requires them to follow the same policies and procedures they use for procurements with non-federal funds. Additionally, they must also comply with §§[200.321](#), [200.322](#), [200.323](#) and [200.327](#). If you are a state agency or Indian tribe and lack such policies and procedures, refer to the regulation for guidance. **Indian tribes were added to the state requirements, as part of the October 1, 2024, Uniform Guidance revisions.**



### All other local government recipients and subrecipients

All other recipients or subrecipients such as local governments must comply with the remaining procurement standards in [2 CFR §200.318–.327](#). We discuss each regulation below and summarize some important points, but do not cover all the requirements. Read each regulation carefully and refer to your federal award's terms and conditions, as well as any applicable federal statutes or regulations that affect the federal award.

**General procurement standards ([2 CFR §200.318](#))**

You must maintain and use documented procedures for procurement transactions under a federal award or subaward, including acquisition of property or services. The procedures must be consistent with state, local and tribal laws, and the regulations and standards identified in [2 CFR §200.317–.327](#). The Uniform Guidance references this requirement (and expands on it) in several of the procurement standards, each of which provide additional insight as to what you must include in your documented procedures.

This regulation provides the authorization for procurement by interlocal agreement, or piggybacking. For more information about state and federal requirements on this topic, review the State Auditor’s Office’s guide:

[\*Piggybacking under Washington State Law.\*](#)

This regulation also covers other topics such as oversight of contractors’ performance, conflict of interest, awarding contracts only to responsible contractors and maintaining records to document the history of each procurement transaction.

**Competition ([2 CFR §200.319](#))**

You must ensure full and open competition for all procurement transactions under federal awards, following the standards in [2 CFR §200.319](#) and [2 CFR §200.320](#). Additionally, you must exclude contractors from competing on those procurements if they developed or drafted the specifications, requirements, statements of work or bid invitations.

Situations that may restrict competition include but are not limited to:

- Placing unreasonable requirements on firms to qualify to do business
- Requiring unnecessary experience and excessive bonding
- Noncompetitive pricing practices between firms or affiliated companies
- Noncompetitive contracts to consultants that are on retainer contracts
- Organizational conflicts of interest
- Specifying only a “brand name” product instead of allowing “an equal” product to be offered
- Any arbitrary action in the procurement process

This regulation also covers other topics including geographic preference restrictions, solicitation requirements and use of prequalified lists of persons/firms/products used in procurement transactions.



**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions remove the geographic preference restriction. The revisions also add a new section regarding the ability to incorporate a scoring mechanism that rewards bidders that commit to specific numbers and types of U.S. jobs, minimum compensation, benefits, and more.**

### **Procurement methods ([2 CFR §200.320](#))**

This regulation describes three types of procurement methods:

- Informal procurement methods (for micro-purchases and simplified acquisitions)
- Formal procurement methods (through sealed bids and proposals)
- Noncompetitive procurement methods

Whether you use informal or formal procurement methods depends on if the value of your procurement exceeds the simplified acquisition threshold (SAT), or the dollar amount below which recipients or subrecipients may purchase property or services using small purchase methods.

### **How to determine your SAT**

You are responsible for determining an appropriate SAT, but it cannot exceed \$250,000. Your determination should be based on your internal controls, an evaluation of risk and your documented procurement procedures. When setting this threshold, you must also determine if local or state government purchasing laws apply. For example:

- Washington state law does not include a threshold for competitively procuring architectural and engineering (A&E) services. Since you must use a competitive process for all A&E procurements under state law, you must do the same under a federal award. This means your SAT is zero.
- Most local governments have a public works bid threshold of \$350,000 under state law, if they adopt small works roster procedures. However, under a federal award, your SAT cannot exceed \$250,000.
- If state law does not specify your public bidding threshold, you will use the SAT you established in your documented procurement procedures, but it cannot exceed \$250,000.

**Figure 15** below summarizes the thresholds and compliance requirements of the five procurement methods in [2 CFR §200.320](#), but you must read the full regulation for all the details.

**Figure 15. The five federal procurement methods**

Method	Threshold	Some key compliance elements
<b>Micro-purchases</b> <a href="#">§200.320(a)(1)</a>	\$10,000 or less based on your analysis (\$2,000 or less for public works) Higher thresholds possible (see regulation)	<ul style="list-style-type: none"> <li>You may award micro-purchases without soliciting competitive price or rate quotations if you consider the price reasonable based on research, experience, purchase history or other information, and you maintain documents to support your conclusion.</li> <li>You should distribute equitably among qualified suppliers.</li> <li>You may use purchase cards as a payment method.</li> </ul>
<b>Simplified acquisitions</b> <a href="#">§200.320(a)(2)</a>	Your SAT or \$250,000, whichever is less	<ul style="list-style-type: none"> <li>You must obtain price or rate quotations from an adequate number of qualified sources.</li> </ul>
<b>Formal: Sealed bids</b> <a href="#">§200.320(b)(1)</a>	Your SAT; cannot exceed \$250,000	<ul style="list-style-type: none"> <li>Preferred for procuring construction services</li> <li>You publicly solicit bids through an invitation</li> <li>You publicly open bids (local governments only)</li> <li>You award a firm, fixed price contract (lump sum or unit price) to lowest responsive bid and responsible bidder</li> <li>Refer to the regulation for further details about how to conduct sealed bidding</li> </ul>

*Figure 15 was updated on October 4, 2024. A prior version of this handbook incorrectly noted that the micro-purchase threshold increased to \$15,000 with the 2024 revisions to the Uniform Guidance. The 2024 Uniform Guidance revisions **did not change** the micro-purchase threshold.*



<p><b>Formal: Competitive proposals</b></p> <p><a href="#">§200.320(b)(2)</a></p>	<p>Your SAT; cannot exceed \$250,000</p>	<ul style="list-style-type: none"> <li>• Used when conditions are not appropriate for using sealed bids</li> <li>• You must give public notice and identify all evaluation factors and their relative importance</li> <li>• You must solicit proposals from multiple qualified entities</li> <li>• To the maximum extent practicable, you must consider any proposals submitted in response to your public notice</li> <li>• You must have written procedures for conducting technical evaluations and making selections</li> <li>• You must award the contract to the responsible offeror whose proposal is most advantageous to you, considering price and other factors (you may exclude price as a selection factor to procure A&amp;E professional services)</li> </ul>
<p><b>Noncompetitive procurement</b></p> <p><a href="#">§200.320(c)</a></p>	<p>n/a</p>	<p>You may only use a noncompetitive procurement method if one of the following circumstances applies:</p> <ul style="list-style-type: none"> <li>• The aggregate amount of the procurement transaction does not exceed the micro-purchase threshold (see the previous page)</li> <li>• A single source can only fulfill the procurement transaction (rare)</li> <li>• The public exigency or emergency for the requirement will not permit a delay from providing public notice of a competitive solicitation</li> <li>• You request in writing to use a noncompetitive procurement method and the awarding agency provides written approval</li> <li>• After soliciting several sources, you determine that competition is inadequate</li> </ul>

When procuring under a federal award, you must also comply with the strictest of local, state or federal procurement laws. **Figure 16** below describes three examples where state and federal law differ, and which regulation you must follow.

**Figure 16. How to apply the strictest of local, state or federal procurement laws**

Procurement type	Washington state law	Federal law	You must:
Architectural and engineering services	Does not include the same level of detail as the federal regulation in several areas	Requires more detailed advertisement and written procedures for the selection process	Comply with the more detailed requirements in federal regulation
Small works roster; project is \$100,000 and your SAT is \$200,000	Allows direct contracting for projects, but if you do not use it, then you must notify everyone on your appropriate roster	You must obtain price or rate quotations from an adequate number of qualified sources	Notify everyone on your appropriate roster and obtain quotations from an adequate number of qualified sources.

### **Contracting with small and minority businesses, women’s business enterprises and labor surplus area firms ([2 CFR §200.321](#))**

When possible, you should ensure that you have considered small businesses, minority businesses, women’s business enterprises and labor surplus area firms, as described in this regulation. For example, you should ensure to include these business types on solicitation lists and solicit when they are deemed as potential sources, among other possibilities.



**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions add veteran-owned businesses.**

### **Domestic preferences for procurements ([2 CFR §200.322](#))**

To the greatest extent practicable and consistent with law, you should provide a preference to purchase, acquire or use goods, products or materials produced in the United States (including but not limited to iron, aluminum, steel, cement and other manufactured products). Refer to the regulation for more details.

For federal infrastructure projects, your awarding agency will also require you to implement the “Buy America” preferences in [2 CFR part 184](#). The Build America, Buy America Act is a law that establishes domestic content procurement preferences for infrastructure projects funded by the federal government. Closely review your federal award’s terms and conditions for these requirements. In some cases, federal agencies have issued waivers. For a listing of waivers by agency, reference the [Made in America page](#) on the General Services Administration website.

### Procurement of recovered materials ([2 CFR §200.323](#))

You must comply with Section 6002 of the Solid Waste Disposal Act, which only allows you to procure items designated in guidelines of the Environmental Protection Agency at [40 CFR part 247](#). Read this regulation for more information.

**Note:** This Act established the “*buy recycled*” program that seeks to harness federal purchasing power to stimulate demand for products made with recovered materials.

**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions add language that states recipients and subrecipients “should” purchase, acquire, or use products or services that can be reused, refurbished, or recycled; contain recycled content, are biobased, or are energy and water efficient; and are sustainable.**



### Contract cost and price ([2 CFR §200.324](#))

You must perform a cost or price analysis for every procurement transaction, including each contract modification, when the total amount of the contract and related modifications exceeds your SAT. You must make independent estimates before receiving bids or proposals. **Note:** Some federal agencies require a cost or price analysis for all purchases. Read your federal award’s terms and conditions to determine if you must do this.

You also must not use the “cost plus a percentage of cost” and “percentage of construction costs” methods of contracting. **Note:** In these methods, a contractor receives a markup fee as a percent of the project costs, as might occur under alternative contracting practices authorized by Washington state law (RCW 39.10).



### Federal agency or pass-through entity review ([2 CFR §200.325](#))

An awarding agency may perform a pre-procurement review for various reasons, as authorized by this regulation. When requested, you must provide procurement documents.

### Bonding requirements ([2 CFR §200.326](#))

If your awarding agency determines the federal interest is protected, it may accept your bonding policy and requirements for construction or facility improvement contracts or subcontracts exceeding your SAT. Otherwise, you must comply with the minimum requirements for bid guarantees, performance bonds and payment bonds described in this regulation. **Figure 17** below summarizes key points about the bonding requirements.

**Figure 17. Summary of Uniform Guidance bonding requirements**

Type	Amount	How it protects you
Bid guarantee	5% of the bid price	Assurance the bidder will, upon acceptance of the bid, execute any required contractual documents within the specified timeframe.
Performance bond	100% of the contract price	A performance bond is executed in connection with a contract to secure the fulfillment of the contractor's requirements under a contract.
Payment bond	100% of the contract price	A payment bond is executed in connection with a contract to assure payment for subcontractors, laborers, and material suppliers so that they will receive payment for services and materials rendered under a contract.

### Contract provisions ([2 CFR §200.327](#))

This regulation states that you must comply with [Appendix II](#), Contract Provisions for Non-Federal Entity Contracts Under Federal Awards. This appendix requires you to include specific provisions in contracts made under the federal award, as applicable.



The list includes about 12 items, including a provision for the Davis-Bacon Act (see more in Chapter 12 of this section).

## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over procurement and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Obtain and review your written procurement procedures and ensure they meet the compliance requirements
- Verify you have written standards of conduct that cover conflicts of interest and expectations for employees who select, award and administrate contracts
- Select a sample of procurements and test that they complied with your procedures, various federal procurement requirements and any Buy America domestic preference provisions

## Learn more about procurement

*Source of governing requirements:*

- Uniform Guidance procurement standards: [2 CFR §200.317-.327](#)
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program



## Suspension and debarment

Before you enter into a covered transaction, the Uniform Guidance requires you to verify whether a contractor or subrecipient is suspended, debarred or otherwise excluded from receiving or participating in federal awards. This requirement is easy to comply with, but it is a common issue for local governments because it can be overlooked during the procurement process or when issuing subawards. While rare, paying federal funds to a suspended or debarred party could lead your auditor to question costs which may result in you having to repay the money to the awarding agency.

This chapter defines covered transactions and identifies the three ways of verifying suspension and debarment status. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

You must verify the suspension and debarment status of third parties before entering into a “covered transaction” with them. For most local government recipients, covered transactions typically include the following (exceptions are rare):

- Contracts for goods and services awarded, including professional service contracts, that are expected to equal or exceed \$25,000 in accordance with [2 CFR §180.220\(b\)\(1\)](#).

**Note:** This applies to each contract, as well as total purchases from one contractor during the fiscal year for like-kind items. It also applies to contracts funded in whole, or in part, with federal funds.

- All subawards given to subrecipients (including other governments), irrespective of award amount, unless they are exempt under [2 CFR §180.215](#).

**Note:** You must consider each new subaward a new transaction, which requires you to reverify suspension and debarment status.

### Three ways of verifying suspension and debarment status

Before you enter into a covered transaction, you must verify that the person (or entity) with whom you intend to do business is not excluded or disqualified. The Uniform Guidance ([2 CFR §180.300](#)) identifies three ways you can do this:

- Obtain a signed certification from the third party attesting they are not suspended or debarred
- Insert a clause into the contract stating the third party is not suspended or debarred

**Note:** You must include the clause as part of the actual contract – a reference in your request for proposal is insufficient. Your awarding agency may permit you to include this clause in a purchase order, assuming the contractor signs it, but you should first verify if your awarding agency will allow it.

- Check the third party’s status in the System for Award Management’s ([SAM.gov](https://sam.gov)) “Exclusions”

**Note:** Retain documentation that demonstrates you performed the search, including the date. For example, you might save a screen shot that includes the date you performed the search.

Develop procedures for how you plan to verify suspension and debarment status.

## About the auditor’s procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over suspension and debarment, and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Review your procedures for verifying suspension and debarment status
- Select a sample of procurements and subawards to ensure you verified suspension and debarment status before you entered into a covered transaction

## Learn more about suspension and debarment

*Source of governing requirements:*

- [2 CFR §200.214](#) Suspension and debarment
- [2 CFR §180.300](#) What must I do before I enter into a covered transaction with another person at the next lower tier?
- [2 CFR §200.318](#)(h) General procurement standards (references 200.214)
- [2 CFR §200.332](#)(a) Requirements for pass-through entities **for new federal awards issued after October 1, 2024, the Uniform Guidance revisions add this language**
- The federal award’s terms and conditions
- Any applicable federal statutes or regulations affecting the federal program



**Caution:** If you enter into a covered transaction in which you did not intend to use federal award funds, but later change your mind, you must remember to verify the status of the party before charging any costs to your federal award. You should also document the reasons you did not perform the verification beforehand.

## Program income

When you generate income as a result of a federally supported program or project, you must use those funds for your federal award's original purpose. If you do not comply with program income requirements, you may inappropriately request federal funds when you should have used program income. Additionally, you may spend more on the project or program than the federal award allowed. Your auditor may report these as questioned costs during an audit.

This chapter defines program income and lists some examples of what it includes. It also identifies three methods for applying program income to your federal award. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

The Uniform Guidance defines program income in [2 CFR §200.1](#):

- “Program income means gross income earned by the recipient or subrecipient that is directly generated by a supported activity or earned as result of the federal award during the period of performance except as provided in [2 CFR §200.307](#).”
- If authorized by federal regulations or the federal award, you may deduct costs incidental to generating program income from gross income to determine program income, provided these costs have not been charged to the federal award.

The Uniform Guidance describes what constitutes program income in [2 CFR §200.1](#) and [2 CFR §200.307](#). Using both these sources, program income typically includes:

- Fees for services performed
- Use or rental of real or personal property acquired under federal awards
- The sale of commodities or items fabricated under a federal award
- License fees and royalties on patents and copyrights, except for those specifically excluded in [2 CFR §200.307](#)
- Principal and interest on loans made with federal award funds



Program income typically does not include:

- Interest earned on advances (see Chapter 2 of this section)
- Taxes, special assessments, levies, fines and other similar governmental revenues that you raised
- The proceeds from the sale of real property, equipment or supplies. (You must handle this property and equipment in accordance with the Uniform Guidance Property Standards in [2 CFR §200.310–.316.](#))
- Rebates, credits, discounts and interest earned on any of them – except as otherwise provided in federal statutes, regulations or your federal award’s terms and conditions

You should also refer to program legislation, federal awarding agency regulations and your federal award’s terms and conditions, as any of those authoritative sources may define program income differently than the Uniform Guidance.

### Applying program income

The Uniform Guidance describes three methods for applying program income: deduction, addition and cost sharing. We explain each method and offer examples below.

You should refer to your federal award’s terms and conditions to identify the method you must follow for applying program income. If neither the award nor the federal agency specify a method, you must use the deduction method. You cannot use the addition or cost-sharing methods without your awarding agency’s prior approval. However, Institutions of Higher Education and nonprofit research institutions must use the addition method if their federal award does not specify a method.

1. **Deduction:** Program income is deducted from total allowable costs, reducing the overall total amount of the federal award. In this example for a county, the government would submit claims for \$95,000 instead of the original \$100,000:

County’s federal award	\$100,000
Minus program income	(5,000)
Adjusted award	\$95,000

Assuming the county had sufficient eligible expenditures, it would report \$100,000 on its Schedule of Expenditures of Federal Awards (SEFA).

2. **Addition:** Program income is added to the total allowable costs, increasing the overall total amount of the federal award. Using the same example, the county may submit claims for the original \$100,000, and it may use the program income as additional program funding.

County's federal award	\$100,000
Plus program income	5,000
Adjusted award	\$105,000

Assuming the county had sufficient eligible expenditures, it would report \$105,000 on its SEFA.

3. **Cost sharing:** Program income is used to meet the federal award's cost-sharing requirement.

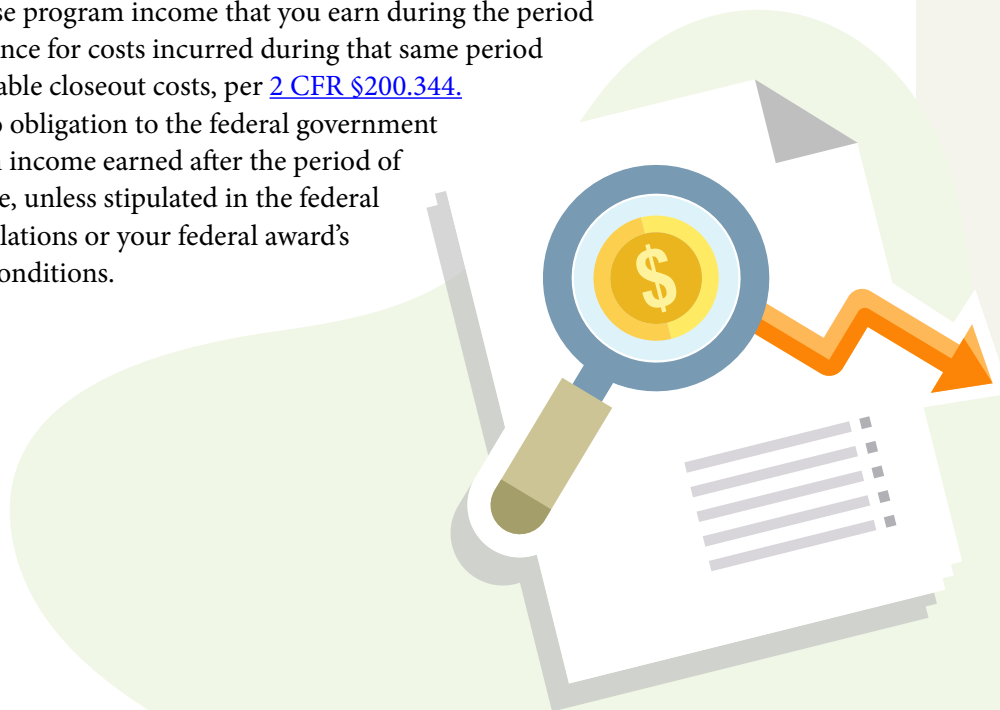
Using the same scenario as above, the county's SEFA reporting is not affected because you do not report cost-sharing contributions on this schedule. Assuming the county had sufficient eligible expenditures, it would report the original award amount of \$100,000 on its SEFA.



**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will add additional clarification around the use and expenditure of program income. It will explicitly state that you must expend program income before requesting additional federal funds from the awarding agency and that you must also only use program income for your federal award's original purpose.**

### Program income in relation to the period of performance

You must use program income that you earn during the period of performance for costs incurred during that same period or for allowable closeout costs, per [2 CFR §200.344](#). You have no obligation to the federal government for program income earned after the period of performance, unless stipulated in the federal agency regulations or your federal award's terms and conditions.



## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over program income requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Verify that you properly determined or calculated program income, in accordance with stated criteria
- Perform tests to ensure you recorded all program income in the accounting records
- Perform tests to verify that you used program income appropriately in accordance with [2 CFR §200.307](#) and the program requirements set by the awarding agency and the award's terms and conditions

## Learn more about program income

*Source of governing requirements:*

- [2 CFR §200.1](#) Definitions (see the program income entry)
- [2 CFR §200.307](#) Program income
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program



## Reporting

Almost every federal award requires recipients to file reports, which could include financial, performance and other special reporting. For example, a request for reimbursement is a type of financial report that governments commonly submit. However, governments often struggle with some of the reporting requirements tied to their federal awards. They may report inaccurate information or even fail to file their reports at all. Awarding agencies rely on reports to ensure recipients used award funds to achieve program objectives. Since awarding agencies use this information to make future funding decisions, it is important for recipients to fulfill all their reporting requirements and submit accurate information.

This chapter explains how to find your reporting responsibilities and summarizes the certification requirements and subaward reporting obligations. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

The federal agency or awarding agency should describe the reporting requirements in your award's terms and conditions. The Uniform Guidance includes reporting requirements, but much of it focuses on what federal agencies may require of recipients. You can find this guidance at [2 CFR §200.328](#) and [2 CFR §200.329](#).

Federal agencies or pass-through agencies may require reporting on an accrual basis, but they cannot require a recipient or subrecipient to establish an accrual accounting system. If you maintain your records on some other basis, you may develop accrual data for your reports based on an analysis of the documentation on hand, as per [2 CFR §200.302\(b\)\(2\)](#).

### Certifying reports

The Uniform Guidance ([2 CFR §200.415](#)) requires recipients to certify their financial reports. An official who is authorized to legally bind the recipient must sign the certification with language that comes directly from the Uniform Guidance, which says:

“By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812).”



**For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will add a certification requirement for all tiers of subrecipients who apply for funds, request payment, and submit financial reports. Refer to the updated regulation for the new certification language.**

### Reporting subawards

A federal agency may require its direct recipients to report certain subawards in accordance with the Federal Funding Accountability and Transparency Act ([2 CFR Part 170](#)). Review your award's terms and conditions to determine if you must comply with Transparency Act reporting requirements. If it is applicable to you, you must report certain subawards using a preestablished system.

## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over applicable reporting requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Identify the required report types and reporting frequencies
- Select a sample of reports, and test them for adherence to the required accounting basis (if applicable), completeness, support and accuracy
- Test any reports required by the Transparency Act. The auditor must see the award in the Transparency Act's Subaward Reporting System (FSRS), the portal where you entered the award information. The auditor will compare the award information in FSRS to the subaward/subcontract documents you maintain.

## Learn more about reporting

*Source of governing requirements:*

- [2 CFR §200.328](#) Financial reporting
- [2 CFR §200.329](#) Monitoring and reporting program performance
- [2 CFR §200.415](#) Required certifications
- [2 CFR Part 170](#) Federal Funding Accountability and Transparency Act
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program

## Subrecipient monitoring

You may authorize a subaward to another entity, known as a subrecipient, to help you carry out part of a federal award. For example, a subrecipient's work might contribute in some way to a project's goals and objectives. When you provide this funding to subrecipients, your government must monitor their compliance with your federal award's terms and conditions. Subrecipient monitoring is a common audit issue for local governments, especially ones that do not often make subawards. Insufficient monitoring – or a complete lack of monitoring – increases your subrecipients' risk of misusing award funds and not complying with applicable requirements. This can result in auditors questioning your program costs, which you may have to repay to your awarding agency.

This chapter explains the requirements for subrecipient monitoring, including how to determine whether an entity you award federal funds to is a subrecipient or a contractor. The chapter then outlines seven specific requirements you must meet when monitoring your subrecipients. It concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

Understanding whether an entity is a subrecipient or contractor will help you determine the applicable requirements. If an entity is a subrecipient, you will need to comply with federal subrecipient monitoring requirements. If an entity is a contractor, you will need to comply with federal procurement standards (see Chapter 7 of this section).

#### Subrecipient vs. contractor determination

The Uniform Guidance defines subrecipient, contractor and other key terms in [2 CFR §200.1](#):

- **Subrecipient** is an entity that receives a subaward from a pass-through agency to carry out part of a federal award. The term subrecipient does not include a beneficiary or participant. A subrecipient may also be a recipient of other federal awards directly from a federal agency.
- **Contractor** is an entity that receives a contract. For purposes of federal financial assistance, a contract is a legal instrument by which a recipient or subrecipient conducts procurement transactions under a federal award (such as to purchase property or services).

If your government acts as a pass-through agency, you must determine on a case-by-case basis whether the entity receiving federal funds is a subrecipient or a contractor, as specified in [2 CFR §200.331](#). You must use judgment in classifying each agreement as a subaward or a procurement contract. In making this determination, the substance of the relationship is more important than the form of the agreement. Though not exhaustive, **Figure 18** below lists some characteristics that support the classification of subrecipient or contractor. The Association of Government Accountants also publishes a [subrecipient versus contractor checklist](#) that you might find helpful.

**Figure 18. Characteristics of subrecipients and contractors**

Subrecipient	Contractor
Determines who is eligible to receive what federal assistance	Provides goods and services within normal business operations
Has its performance measured in relation to whether the federal program's objectives were met	Provides goods or services to many different purchasers
Has responsibility for programmatic decision-making	Normally operates in a competitive environment
Is responsible for adherence to applicable federal program requirements specified in the federal award	Provides goods or services that are ancillary to the implementation of a federal program
Implements a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity	Is not subject to compliance requirements of a federal program as a result of the agreement. However, similar requirements may apply for other reasons.

### Seven subrecipient monitoring requirements

If you pass federal money through to a subrecipient, you must comply with the following seven requirements, in accordance with [2 CFR §200.332](#):

- 1) **Verify suspension and debarment status.** Verify the subrecipient is not excluded or disqualified, in accordance with [2 CFR §180.300](#). See Chapter 8 of this section for more information about suspension and debarment. **As of October 1, 2024, the Uniform Guidance revisions add this requirement to 2 CFR §200.332, but it is not a new requirement per se.**
- 2) **Communicate required information to the subrecipient, within the subaward.** As a pass-through agency, you must ensure that every subaward is clearly identified as such to the subrecipient, and that it includes all information listed in [2 CFR §200.332](#).



**Note:** If you pass through funds to a for-profit organization, the Uniform Guidance does not apply to that organization. You, as the pass-through agency, must establish any requirements within your contract, as well as build in monitoring mechanisms, to ensure compliance. Refer to [2 CFR §200.501\(h\)](#) for more information.



- 3) **Perform a risk assessment.** As a pass-through agency, you must evaluate each subrecipient's fraud risk and risk of noncompliance with a subaward to determine the appropriate subrecipient monitoring. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions add language about evaluating fraud risk.**

You should consider the risk factors described in [2 CFR §200.332](#), which includes:

- The subrecipient's prior experience with the same or similar subawards
- The results of previous audits (you should consider whether the subrecipient received a Single Audit in accordance with [Subpart F](#) of the Uniform Guidance and the extent to which the same or similar subawards have been audited as a major program)
- Whether the subrecipient has new personnel or new or substantially changed systems
- The extent and results of any federal agency monitoring (for example, if the subrecipient also receives federal awards directly from the federal agency).

- 4) **Monitor the activities of the subrecipient.** As a pass-through agency, you must monitor the activities of a subrecipient to ensure it complies with any applicable federal statutes and regulations affecting the federal program, as well as the subaward's terms and conditions. You must also monitor the subrecipient's overall performance to ensure it achieved the goals and objectives of the subaward. For example, if your federal award's goal was to serve a low-income population, your monitoring should ensure that population was served.

Regardless of the subrecipient's risk and subaward amount, you must perform a minimum amount of monitoring, including:

- Reviewing financial and performance reports as required
- Ensuring the subrecipient takes corrective action on all significant developments that negatively affect the award such as audit findings, site visits and written notifications from the subrecipient of adverse conditions that will impact their ability to meet the milestones or the objectives of a subaward

The Association of Government Accountants also publishes a [risk assessment monitoring tool](#) that you might find helpful.



- Issuing a management decision for audit findings pertaining to the subaward (for more on management decisions, refer to [2 CFR §200.521](#))
- Resolving audit findings specifically related to the subaward (exception for cross-cutting findings, refer to [2 CFR §200.332](#))

Depending on your results of your risk assessment, the following monitoring tools may be useful:

- Provide subrecipients with training and technical assistance on program-related matters
- Perform site visits to review the subrecipient's program operations
- Arrange for an agreed-upon-procedures engagement, as described in [2 CFR §200.425](#)

5) **Verify audit completion.** You must verify that a subrecipient is audited, as required by [Subpart F](#) of the Uniform Guidance.

**Note:** You must ensure your subrecipient submitted its audit to the Federal Audit Clearinghouse. You must do this no matter how much money you gave the subrecipient, even if your award was not large enough to trigger a federal single audit for the entity.

6) **Consider necessary adjustments to your records.** Consider whether the results of a subrecipient's audit, site visits or other monitoring require adjustments to your records.

7) **Consider taking enforcement action against noncompliant subrecipients.** The Uniform Guidance (2 CFR §200.339) describes your remedies, as the pass-through agency, for when subrecipients do not comply.



## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over subrecipient monitoring and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Review your subrecipient monitoring policies and procedures
- Review subaward documents to ensure you included the required federal award information
- Review your documentation for monitoring the subaward, and determine if it provided reasonable assurance that the recipient used the subaward for authorized purposes (this means the auditor will also need to review your risk assessment)
- Determine if you verified that subrecipients met their audit requirements

## Learn more about subrecipient monitoring

*Source of governing requirements:*

- [2 CFR §200.331](#) Subrecipient and contractor determinations
- [2 CFR §200.332](#) Requirements for pass-through entities
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program



## Special test: Wage rate requirements (Davis-Bacon Act and related acts)

If you use federal awards on a public works project exceeding \$2,000, you will likely be required to comply with the Davis-Bacon Act and related acts comprising the federal labor standards. These regulations establish a minimum hourly wage for laborers and mechanics, also commonly known as prevailing wage requirements. Complying with these requirements can be challenging for local governments that are managing federally funded construction projects for the first time. If governments do not comply with these requirements and ensure their contractors pay prevailing wages, they could be liable for paying additional wages to the people who worked on the contracts.

This chapter summarizes three key wage rate requirements: contractual clauses, weekly certified payroll reports and monitoring and enforcement of all contracts. The chapter concludes with an overview of the procedures that local governments can expect their auditors to perform, as well as links to additional resources.

### An overview of requirements

Refer to your federal award's terms and conditions and any applicable federal statutes or regulations that may affect the federal program to determine if you must comply with the federal labor standards. If you are unsure, check with your awarding agency. The federal labor standards are incorporated into [29 CFR §5](#), and referenced in the Uniform Guidance ([2 CFR §200.327](#), which refers to further details in [Appendix II](#)).

#### **Include required contractual clauses**

If you are required to comply with the federal labor standards, you must include a copy of the current prevailing wage determination(s) issued by the U.S. Department of Labor in each solicitation. You must also include the entire language of [29 CFR §5.5](#) in your contract.

Additionally, you must require the contractor and lower-tier subcontractors to pay the higher of state or federal wage rates to laborers and mechanics, as published by the [Washington State Department of Labor & Industries](#) and the [U.S. Department of Labor](#). Federal requirements stipulate that you, as the federal award recipient or subrecipient, must comply with the most demanding of any local, state or federal requirements when using federal money on a project.

#### **Collect weekly certified payroll reports**

When you use federal funds on a construction project exceeding \$2,000, you are responsible for ensuring that contractors and their subcontractors submit certified payroll reports to you weekly, for each week they worked.

## Monitoring and enforcement of all contracts

The Davis-Bacon Act enforcement provisions in [29 CFR §5.6](#) require investigations of all contracts, to ensure the contractor and subcontractors complied with Davis-Bacon Act requirements. Such required investigative procedures include worker interviews and examinations of certified payrolls, regular payrolls and other basic records required to be maintained according to [29 §5.5\(a\)\(3\)](#). In making such examinations, particular care must be taken to determine the correctness of classification(s) of work performed, and to determine whether there is a disproportionate amount of work by laborers and of apprentices registered in approved programs.

In the Uniform Guidance, [29 CFR §5.6](#) specifically gives enforcement responsibility to the federal agency. However, you should expect federal agencies to delegate such responsibility to recipients, and such recipients will delegate to any subrecipients. Read your federal award's terms and conditions and inquire with your awarding agency to determine applicability.

## About the auditor's procedures

You will find all the suggested audit procedures outlined in Part 3 of the [Compliance Supplement](#). Your auditor will gain an understanding of your internal controls over prevailing wage requirements and test your key controls. See Section 3 of this handbook for more information on internal controls.

For compliance testing purposes, most local governments should expect an auditor to:

- Verify that the required prevailing wage rate clauses were included in the contract or subcontract
- For each week in which work was performed under the contract or subcontract, verify that the contractor or subcontractor submitted the required certified payrolls

**Note:** Federal agencies or awarding agencies commonly review compliance with these requirements as part of their own monitoring, and they often expand beyond what auditors typically review.

## Learn more about the wage rate requirements

*Source of governing requirements:*

- Federal labor standards are incorporated into [29 CFR §5](#)
- [2 CFR §200.327](#), which refers to further details in [Appendix II](#)
- The federal award's terms and conditions
- Any applicable federal statutes or regulations affecting the federal program

If you identify noncompliance or have technical questions about the Davis-Bacon Act, contact the U.S. Department of Labor.

For additional assistance, the U.S. Department of Labor offers [live prevailing wage trainings](#) and [recorded webinars](#). The agency also publishes an online [Prevailing Wage Resource Book](#).

# Essentials for implementing internal controls

Understanding your federal award requirements is a key part of designing a strong control system. Knowing each federal award's administrative requirements – and how you will ensure your own compliance with them – is essential for building a control environment that will help you successfully manage your awards and meet their compliance objectives. This may require you to adapt some of your current controls or implement new ones.

This section covers federal requirements for a financial management system, internal control system, policies and procedures, award monitoring, whistleblower protections and records retention. Before reading this section, we recommend you read Sections 1 and 2 of this handbook, which cover the Cost Principles and common administrative requirements, respectively.

## Financial management system requirements

Each state must expend and account for federal awards in accordance with its own laws and procedures for expending and accounting for the state's funds. Additionally, states and all other recipients and subrecipients must have sufficient financial management systems that allow them to prepare reports required by their award's terms and conditions, as well as track expenditures to demonstrate they have used funds following federal statutes, regulations, and the federal award's terms and conditions.

The Uniform Guidance establishes requirements for recipients' and subrecipients' financial management systems in [2 CFR §200.302](#). These systems must provide for:

- **Award identification** – Identification of all federal awards received and expended and the federal programs under which they were received. This must include, as applicable, the program's Assistance Listing Number and title, federal award identification number, year and other information as described in [2 CFR §200.302](#).
- **Reporting** – Accurate, current and complete disclosure of the financial results of each federal award or program in accordance with reporting requirements in [§200.328](#) and [§200.329](#).
- **Recordkeeping** – Records that sufficiently identify the amount, source and expenditure of federal award funds. Your records must contain information pertaining to federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest. You must support these records with source documentation.

- **Safeguarding of assets** – Effective control over and accountability for all funds, property and assets. You must safeguard all assets and ensure they are used solely for authorized purposes.
- **Budget to actual information** – Comparison of expenditures with budget amounts for each federal award.
- **Written procedures** – You must have written procedures over cash management requirements such as for advance payments and reimbursements (refer to Section 2, Chapter 2). You must also have written procedures over the allowability of costs in accordance with the [Cost Principles](#) and your federal award’s terms and conditions. For more information, refer to Section 2, Chapter 1.

**Note:** The Uniform Guidance requires written procedures in several different regulations; this happens to be one of them. See **Figure 22** on p. 83 for a summary of all policy and procedure requirements.

## Internal control system requirements

The Uniform Guidance defines internal controls in [2 CFR §200.1](#). Internal controls are processes that recipients and subrecipients design and put in place to provide reasonable assurance they have achieved their objectives in all three of these categories:

1. Effectiveness and efficiency of operations
2. Reliability of reporting for internal and external use
3. Compliance with applicable laws and regulations

The Uniform Guidance establishes internal control requirements in [2 CFR §200.303](#). As a recipient or subrecipient, you must:

- **Establish, document and maintain effective internal control** over your federal award. Your internal control must provide reasonable assurance that you manage your award in compliance with federal statutes, regulations and its terms and conditions. **The word “document” is newly added to this regulation with the October 1, 2024, Uniform Guidance revisions, although the Office of Management and Budget (OMB) does not consider this to be a policy change.**



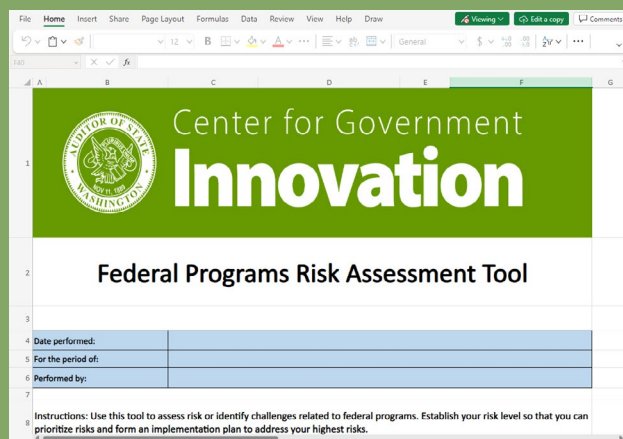
**Your controls should align with either of the following standards:**

- [Standards for Internal Control in the Federal Government](#) (known commonly as the “Green Book”). The Comptroller General of the United States issues the Green Book, which adapts the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) principles to a government environment. The Green Book is free to download.
- [Internal Control – Integrated Framework](#), issued by COSO. The book is available for purchase; check its website for current pricing.
- **Comply with** the U.S. Constitution, federal statutes, regulations, and your federal award’s terms and conditions
- **Evaluate and monitor your compliance** with statutes, regulations and your federal award’s terms and conditions
- **Take prompt action** when instances of noncompliance are identified
- **Take reasonable cybersecurity and other measures to safeguard information**, including protected personally identifiable information and other types of sensitive information. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions will require internal controls to include cybersecurity measures.**



## Looking for help with designing risk assessments?

The State Auditor’s Office has a free [Federal Programs Risk Assessment Tool](#) available for download in the Resource Library.



## Illustrative internal controls from the *Compliance Supplement*

Appendix I of Part 6 of the [Compliance Supplement](#) provides illustrative entity-wide controls for four of the five components of internal control from the Green Book and COSO: control environment, risk assessment, information and communication, and monitoring. Appendix II provides illustrative specific controls over compliance for control activities, the remaining component of internal control. **Figure 19** below lists the principles of these five control components. Recipients and subrecipients should understand and apply these principles as they design their controls.

**Figure 19. Summary of internal control components and associated principles**

Components of Internal Control	Applies to	Principles
Control environment	Entity-wide	<ol style="list-style-type: none"> <li>1. Demonstrate Commitment to Integrity and Ethical Values</li> <li>2. Exercise Oversight Responsibility</li> <li>3. Establish Structure, Responsibility, and Authority</li> <li>4. Demonstrate Commitment to Competence</li> <li>5. Enforce Accountability</li> </ol>
Risk assessment	Entity-wide	<ol style="list-style-type: none"> <li>6. Define Objectives and Risk Tolerances</li> <li>7. Identify, Analyze, and Respond to Risks</li> <li>8. Assess Fraud Risk</li> <li>9. Identify, Analyze, and Respond to Change</li> </ol>
Control activities	For each administrative requirement	<ol style="list-style-type: none"> <li>10. Design Control Activities</li> <li>11. Design Activities for the Information System</li> <li>12. Implement Control Activities</li> </ol>
Information and communication	Entity-wide	<ol style="list-style-type: none"> <li>13. Use Quality Information</li> <li>14. Communicate Internally</li> <li>15. Communicate Externally</li> </ol>
Monitoring	Entity-wide	<ol style="list-style-type: none"> <li>16. Perform Monitoring Activities</li> <li>17. Evaluate Issues and Remediate Deficiencies</li> </ol>



While helpful, the *Compliance Supplement* cautions recipients and subrecipients not to use the appendices in Part 6 as a checklist of the required characteristics for their controls. You must use your own judgment when designing and implementing your controls. Refer to Part 6 of the *Compliance Supplement* for more guidance on how to use the information in these appendices.

### Entity-wide controls

To view illustrative controls for each principle associated with each of the four entity-wide components, refer to Appendix I of Part 6 of the *Compliance Supplement*. **Figure 20** below is an excerpt from Appendix I.

#### Figure 20. An example of entity-wide controls for Control Environment, Principle 1

**Principle 1. The oversight body and management should demonstrate a commitment to integrity and ethical values.**

**Illustrative Controls:**

- A code of conduct is developed, documented, communicated and periodically updated
- A code of conduct explicitly prohibits inappropriate management override of established controls
- Conflict of interest statements are obtained periodically from those charged with governance and key management



**Specific controls for control activities**

To view illustrative specific controls for each principle under the control activities component, refer to Appendix II of Part 6 of the *Compliance Supplement*. You will notice controls are organized by each administrative requirement (see Section 2 of this handbook to learn more about these requirements). **Figure 21** below is an excerpt from Appendix II.

**Figure 21. An example of controls for Control Activities, Principle 1**

Principle 1: Design Control Activities			
<p>A. Activities Allowed or Unallowed</p> <p>B. Allowable Costs/Cost Principles</p>	<p>C. Cash Management</p>	<p>E. Eligibility</p>	<p>F. Equipment and Real Property Management</p>
<p>Management reviews applicable award agreements or contracts for specific allowable activities requirements, budget parameters, indirect rates, fringe benefit rates, and those activities/costs that require pre-approval by the awarding agency and documents such features into a grant approval form which is submitted to accounting personnel for review and approval before being input into the system as the profile for the grant.</p>	<p>Management reviews applicable award agreements or contracts to determine applicability of drawdown method (advance or reimbursement) to develop its own control activities and to inform its establishment of a method for subrecipients, as applicable.</p>	<p>Management reviews applicable award agreements or contracts and identifies specific eligibility requirements including benefits to be paid.</p>	<p>Management reviews applicable award agreements or contracts and identifies specific equipment and real property requirements.</p>



## Written policy and procedure requirements

You should adopt written policies and procedures that help you maintain an effective system of internal controls. In certain circumstances, the Uniform Guidance requires you to have a policy or procedure. **Figure 22** below provides a reference list on required policies or procedures, and where to find more information in our handbook.

**Figure 22. Uniform Guidance requirements for written policies or procedures**

Category	Related CFR	Sections in this handbook with more information
Allowable costs: For determining the allowability of costs in accordance with Subpart E of the Uniform Guidance and your federal award's terms and conditions	<a href="#">2 CFR §200.302(7)</a>	Section 1 covers the requirements of Subpart E  Section 2, Chapter 1 discusses allowable costs
Cash management: Advance payments and reimbursements	<a href="#">2 CFR §200.302(6)</a>  <a href="#">2 CFR §200.305</a>	Section 2, Chapter 2
Conflict of interest	<a href="#">2 CFR §200.318(c)</a>	Section 2, Chapter 7
Procurement, solicitations	<a href="#">2 CFR §200.318(a)</a>  <a href="#">2 CFR 200.319(d)</a>  <a href="#">2 CFR §200.320</a>	Section 2, Chapter 7
Travel costs	<a href="#">2 CFR §200.475</a>	Section 1, Chapter 3
Compensation – personal services	<a href="#">2 CFR §200.430</a>	Section 1, Chapter 3
Compensation – fringe benefits	<a href="#">2 CFR §200.431</a>	Section 1, Chapter 3

## Federal award monitoring requirements

Your control system should address monitoring of federal awards. As a recipient or subrecipient, you are responsible for oversight of your federal award, according to [2 CFR §200.329\(a\)](#). You must monitor your activities under federal awards to ensure you are compliant with all requirements and that you meet performance expectations. Your monitoring must cover each program, function or activity. **The Uniform**

**Guidance revisions add additional clarity for new federal awards issued after October 1, 2024, to this regulation, but it is not a new requirement.**



## Whistleblower protection requirements

A whistleblower program can be an integral part of an internal control system. It can be helpful for identifying fraud, waste, abuse and noncompliance.

The Uniform Guidance ([2 CFR §200.300](#)) requires recipients and subrecipients to provide whistleblower protections related to federal awards. **For new federal awards issued after October 1, 2024, the Uniform Guidance revisions expand this information and move it to 2 CFR §200.217, with a new requirement that recipients and subrecipients must inform their employees in writing of federal whistleblower protections provided by law.**



## Records retention requirements

You must adhere to the strictest of local, state or federal requirements for record retention.

- **For state requirements:** Refer to the Secretary of State's [Local Government Common Records Retention Schedule](#).
- **For federal requirements:** Generally, recipients and subrecipients must retain all federal award records for three years from the submission date of their final expenditure report. Federal agencies may impose additional record retention requirements. For example, they might require you to retain property records for three years after disposition. If you have any unresolved audit findings, you may have to retain records for more than three years. Refer to [2 CFR §200.334](#) for further details.





## Authoritative guidance

The Uniform Guidance requires recipients and subrecipients who must obtain an audit to prepare a SEFA ([2 CFR §200.510](#)). However, all local governments in Washington must prepare a SEFA if they have any activity to report. Refer to your authoritative accounting and reporting manual for further instructions:

- The *Budgeting, Accounting and Reporting System* (BARS) Manual, [GAAP](#) and [cash basis](#)) provides SEFA reporting instructions to all local governments except school districts. The State Auditor’s Office updates these manuals annually in December/January.
- The [Accounting Manual for Public School Districts in the State of Washington](#) refers school districts, charter public schools and state-tribal education compact schools to the Office of Superintendent of Public Instruction’s [Accounting, Budgeting, and Financial Reporting Guidance webpage](#) for detailed SEFA reporting instructions.

Each of these manuals includes an example SEFA and set of footnote disclosures.

### Assistance Listing Numbers

The federal government assigns nearly every federal award a unique five-digit number, known as the Assistance Listing Number (ALN). Awarding agencies must communicate ALNs to recipients in the award notice. The first two digits identify the federal agency, and the last three digits identify the program. See **Figure 24** below for an example.

**Figure 24. Identifying information in ALNs**

21.	027
U.S. Department of the Treasury	Coronavirus State and Local Fiscal Recovery Funds

You must include the correct ALN for each federal award on your SEFA. If your awarding documents do not include an ALN, you should:

- Ask the awarding agency to provide it
- Research assistance listings at [SAM.gov](#), but make sure to search for both active and inactive listings
- Submit questions to the State Auditor’s Office’s [Help Desk in the client portal](#) (available to Washington-based governments only)

If you conclude that your award does not have an ALN, follow this guidance:

1. In the first two spaces, enter the federal agency's two-digit prefix.  
See **Figure 25** below for most common agencies or consult [SAM.gov](https://www.sam.gov).
2. Follow the two-digit prefix with the letter "U" for unknown, followed by a two-digit number starting with "01". (The first federal program on your SEFA with an unknown three-digit extension would be U01 for all award lines associated with that program, the second would be U02, and so on. You can start the series of two-digit numbers over for each federal agency or continue throughout the remainder of the SEFA.)

**Figure 25. Most common federal agencies' two-digit prefixes**

Prefix	Federal agency	Prefix	Federal agency
07	Office of National Drug Control Policy	43	National Aeronautics and Space Administration
10	Department of Agriculture	47	National Science Foundation
11	Department of Commerce	59	Small Business Administration
12	Department of Defense	64	Department of Veterans Affairs
14	Department of Housing and Urban Development	66	Environmental Protection Agency
15	Department of Interior	81	Department of Energy (includes the Bonneville Power Administration)
16	Department of Justice	84	Department of Education
17	Department of Labor	93	Department of Health and Human Services
20	Department of Transportation	94	Corporation for National Service
21	Department of Treasury	96	Social Security Administration
39	General Services Administration	97	Department of Homeland Security (Includes FEMA)

## General reporting requirements

The Uniform Guidance requires you to prepare a SEFA in accordance with [2 CFR §200.510\(b\)](#), which specifies the general reporting requirements. **Figure 26** below lists the requirements and describes where you may find additional information. If you have COVID-19 funding, you must present this information in a specific way on your SEFA. Refer to your reporting instructions for details.

**Figure 26. General reporting requirements for the SEFA**

Requirement	Additional guidance
List federal programs by federal agency using the applicable ALN.	Refer to the “Assistance Listing Numbers” section on p. 86
For a cluster of programs, you must provide the cluster name, a list of individual federal programs and ALNs within the cluster, as well as the federal agency’s name and a total for the cluster.	See note below this figure
If you received an indirect award, you must include the name of the pass-through entity and any identifying award number assigned by the pass-through agency.	Refer to the “Direct and indirect federal funding” section on p. 89
Provide the total federal awards expended for each individual federal program.	Refer to the “Determining federal awards ‘expended’” section on p. 90
For each individual program, provide the ALN or other identifying number when the ALN is unavailable.	Refer to the “Assistance Listing Number” section on p. 86
If you provided subawards, include the total amount you provided to subrecipients for each federal program.	Refer to <a href="#">§200.1</a> for a subaward definition. Also, refer to Section 2, Chapter 11 of this handbook for more information about subrecipients.
Include all required note disclosures provided for in this regulation. Refer to <a href="#">2 CFR §200.510(b)(5-6)</a> for specifics.	Refer to your respective authoritative accounting and reporting manual for example note disclosures

**Note:** A cluster of programs means a grouping, by a federal agency, of closely related programs that share common compliance requirements. Your auditor will consider them to be one program even though they have different ALNs, for the purpose of determining your major programs for audit.



**Figure 27** lists the different federal programs that comprise the Child Nutrition Cluster. Refer to the [Compliance Supplement](#), Part 5, to identify clusters (these are updated annually). If you file your SEFA online using the State Auditor’s Office’s system, our program will identify clusters for you.

**Figure 27. Example: Child Nutrition Cluster**

ALN	Program name
10.533	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)
10.556	Special Milk Program for Children (SMP)
10.559	Summer Food Service Program for Children (SFSPC)
10.582	Fresh Fruit and Vegetable Program (FFVP)

### Direct and indirect federal funding

You must report all direct and indirect federal awards on your SEFA, and distinguish between them on the face of the SEFA, so you should carefully read all award agreements and their corresponding terms and conditions.

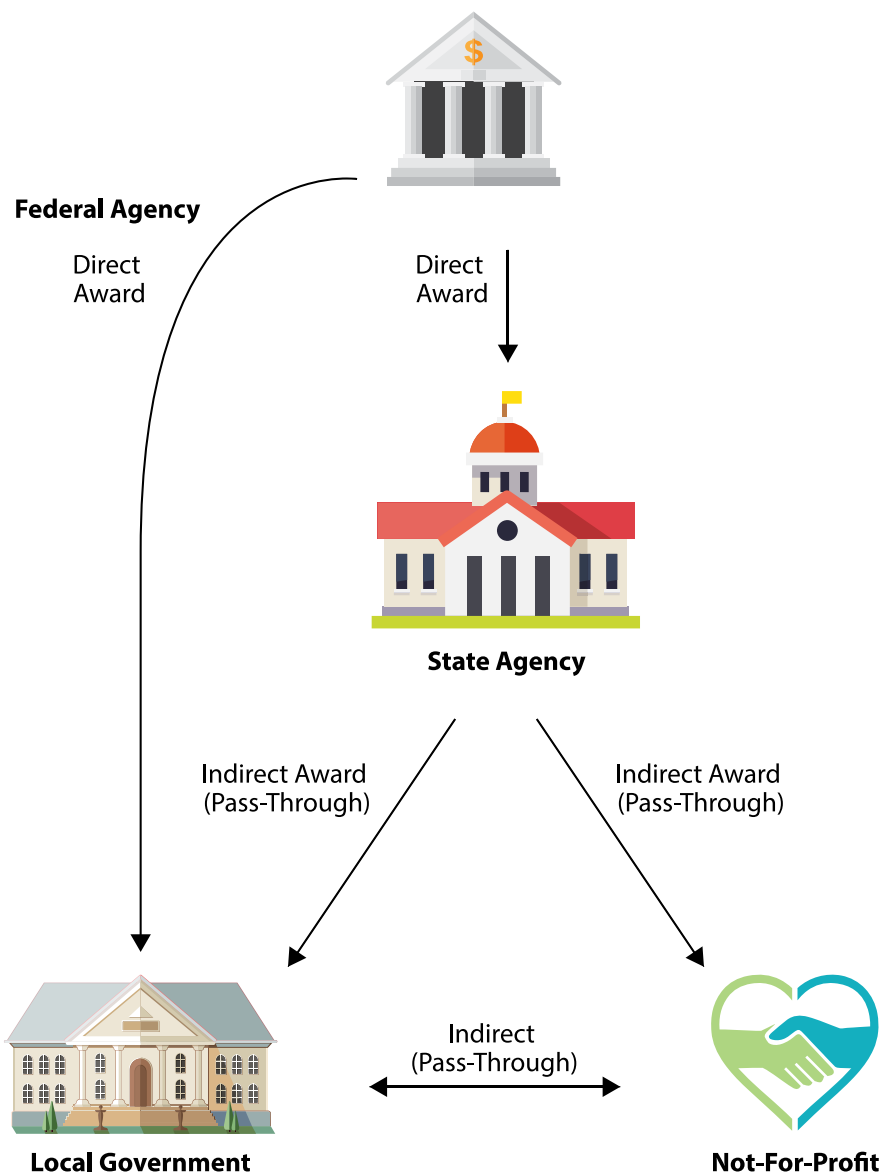
**Figure 28** on the next page illustrates the difference between direct and indirect funding. You receive a direct award when a federal agency provides federal assistance to your government, with no intermediaries involved.

You receive an indirect award when a federal agency first gives funding to a state agency or another local government, which then acts as a “pass-through agency” and later authorizes a subaward to you.

When in doubt, ask your awarding agency.



**Figure 28. Direct vs. indirect federal funding**



### Determining federal awards “expended”

You should determine when you have expended a federal award based on when its activity occurs, as per [2 CFR §200.502](#). Generally, the activity related to the federal award pertains to events that require your government to comply with federal statutes, regulations, and the federal award’s terms and conditions. **Figure 29** on the next page lists various activities or events and when to report them on your SEFA. **We have bolded the events and activities that Washington’s local governments most commonly encounter.**

Figure 29. SEFA reporting for various activities or events

Event/activity	Additional guidance
<p><b>Expenditure/expense transactions associated with grants, cooperative agreements, cost-reimbursement contracts under the Federal Acquisition Regulations (FAR), compacts with Indian tribes and direct appropriations.</b></p>	<p>Generally, you should report expenditures on the SEFA in the year that you incur and recognize them, in accordance with your basis of accounting, assuming an award is in place. Your expenditures include direct and indirect costs that you claim for payment under your federal award's terms. For most programs, you do not report on the date you receive payment from the awarding agency (cash advance or receipt of reimbursement).</p> <p>In other cases, the amount expended might be based on activity, not reimbursable expenditures. An example of this is a fixed amount award, a type of grant or cooperative agreement where the awarding agency provides a specific level of support regardless of actual costs incurred under the federal award.</p>
<p><b>The disbursement of funds to subrecipients</b></p>	<p>Generally, you report expenditures when you, as the pass-through agency, make or authorize a payment to a subrecipient for allowable costs that you will charge to the federal program.</p>
<p><b>The use of loan proceeds under loan and loan guarantee programs</b></p>	<p>For more information, refer to the "Special topic: Valuation of federal loans" section on p. 95</p>
<p><b>The receipt of property, including surplus property</b></p>	<p>You should report property or other noncash awards during the period you receive it. You should report it at fair market value, unless your awarding agency directs otherwise. Include a SEFA note disclosure.</p>
<p><b>The receipt or use of program income</b></p>	<p>Contact your awarding agency about how it prefers you to report program income if it is unclear in your award's terms and conditions or awarding agency guidance. The Uniform Guidance describes three methods, but most local governments use the deduction method described in <a href="#">2 CFR §200.307(e)</a>. See Section 2, Chapter 9 of this handbook for more information about program income and these methods.</p>
<p>The distribution or use of food commodities</p>	<p>N/A</p>
<p>The disbursement of amounts entitling you to an interest subsidy</p>	<p>N/A</p>
<p>The period when insurance is in force</p>	<p>N/A</p>

You do not report the following on your SEFA:

- Your cost-sharing or match contribution, including any program income that your awarding agency approved as cost sharing/match. However, if program regulations allow you to use a federal award as match, then you would report the expenditures on the SEFA.
- Any of your own project/program expenses that you funded with state or local dollars, unrelated to the federal award funding
- Retainage, unless you have paid it to the contractor or placed it in an escrow/trust account ([2 CFR §200.305\(b\)\(6\)\(iv\)](#)). Refer to Section 2, Chapter 2 of this handbook for information on cash management requirements.

### Reporting expenditures on the correct year's SEFA

You must report transactions on your SEFA in accordance with your accounting basis. This means if you recognized an expenditure in your accounting records, you would generally include it on your SEFA that same year. Governments that comply with generally accepted accounting principles (GAAP) recognize expenditures when they incur them (such as when they physically receive the goods or services). It does not matter when a government receives or pays the invoice itself.

Governments that comply with cash-basis reporting requirements recognize expenditures in the year they pay them. However, if you have an open period, then at the start of a new fiscal year you have a certain number of days in which you can pay prior-period expenditures and record and report them in the prior year. Washington state law mandates whether a local government must use, or has the option to use, an open period. For more information about open periods, refer to the BARS Manual ([Section 3.1.7.40](#)).

**Figure 30** on the next page explains when and why a calendar-year government would report a \$10,000 cost on its SEFA, based on its accounting basis. The government incurred a \$10,000 cost for supplies it physically received in December 2023, and it paid the invoice January 15, 2024. The government submitted for and received reimbursement from its federal awarding agency in March 2024.

For additional information, refer to the SEFA reporting instructions in the [BARS Cash Manual](#) or the [BARS GAAP Manual](#).

**Figure 30. Solution to hypothetical scenario**

Accounting basis	Year reported on the SEFA	Explanation
GAAP	2023	The government received the goods or services in 2023, so it would recognize and report the expense in 2023. It does not matter when the invoice arrives or when the government pays it.
BARS Manual cash basis ( <i>no open period</i> )	2024	The government made the payment in 2024, so it would recognize and report the expenditure in 2024.
BARS Manual cash basis ( <i>20-day open period</i> )	2023	The government incurred the cost in 2023 and paid it during the open period, so it would recognize and report the expenditure in 2023.

**Note:** Barring a few exceptions, the timing of when governments actually submit for reimbursement, or receive payment from their awarding agency, has no bearing on SEFA recognition.

For more information on how open periods affect SEFA reporting, refer to the SEFA reporting instructions in the [BARS Cash Manual](#).

### SEFA filing instructions

Washington local governments can import their SEFA data using a template or manually enter it directly into the State Auditor’s Office’s filing system. The filing system automatically formats this data once it is imported or entered. The BARS Manual has instructions for both methods, and it incorporates all Uniform Guidance requirements for SEFA preparation. However, you should review your final schedule to ensure it is accurate and complete. Visit the [About Filing Online page](#) on the State Auditor’s Office website to learn more about filing online and access reporting templates.

## Special topic: FEMA Disaster Grants – Public Assistance (Presidentially Declared Disasters) – ALN 97.036

Governments often incur disaster recovery costs long before they apply for and receive FEMA funding approval. When FEMA does give funding approval, it will do so based upon a “project” (previously referred to as public worksheet). You report eligible disaster recovery costs on your SEFA when:

1. FEMA has approved your project

AND

2. You have incurred eligible expenditures

**Figure 31** below identifies when you would report costs on your SEFA for two scenarios.

**Figure 31. Timing of SEFA recognition for FEMA awards**

	FEMA approved the project	You incur eligible expenditures	When to report on your SEFA
Scenario 1	FY 2024	FY 2025	FY 2025
Scenario 2	FY 2025	FY 2024	FY 2025 (include a footnote disclosure to indicate you incurred these expenditures in a prior year)

### Small project reporting

FEMA handles small projects differently than large projects, and this will affect how you report them on your SEFA. FEMA classifies the project as small or large based on [these thresholds listed on its website](#). In summary:

- FEMA does not adjust the award amount for small projects. You should report expenditures incurred up to FEMA's approved award amount on your SEFA. If you incur fewer expenditures than the award amount, you should report the remainder of the approved award amount.
- FEMA does adjust the award amount for large projects without a cap. Your final approved funding amount will equal your actual costs incurred, so that is the amount you should report on your SEFA.

**Figure 32** below lists the amounts you would report on your SEFA for three different projects.

**Figure 32. Determining SEFA reporting for FEMA awards**

	Approved amount	Actual expenditures	Amount reported on your SEFA
Small project	\$40,000	\$42,526	\$40,000
Small project	\$40,000	\$38,500	\$40,000
Large project (no cap)	\$5,100,259	\$5,100,259	\$5,100,259

## Special topic: Valuation of federal loans

The Uniform Guidance instructs recipients on how to calculate the value of federal awards expended under loan programs in [2 CFR §200.502\(b-d\)](#). It provides the following general guidelines to calculate the value expended:

- a) Value of new loans made or received during the audit period

**PLUS**

- b) Balance of loans from previous years at the beginning of the audit period for which the federal government imposes continuing compliance requirements

*(You have a continuing compliance requirement if the federal agency imposes an administrative requirement on the outstanding loan balance. The awarding agency may impose requirements relating to any one of the administrative compliance requirements in years following receipt of the loan. Your obligation to continue to make loan payments most likely does not qualify. Refer to the BARS Manual for more details and examples.)*

**PLUS**

- c) Any interest subsidy, cash or administrative cost allowance received

*(For example, the federal government might pay or waive a portion of the interest cost that the borrower would have ordinarily paid.)*

### Caution – exceptions exist!

Federal loans are complex, and many exceptions exist. For example, awarding agencies can differ on when they consider a loan to be “expended” and therefore reported on the SEFA. One agency may consider the federal award expended when you drew down the loan, while another may consider it expended when you incurred the expenditure. You should refer to program guidance, the federal award’s terms and conditions, and ask your awarding agency when questions arise. The BARS Manual covers several loan programs with SEFA reporting exceptions, such as for several Environmental Protection Agency and U.S. Department of Agriculture loan programs.

### Additional loan reporting resources

Local governments can find extensive SEFA loan reporting guidance in the BARS Manual. School districts, charter public schools and state-tribal education compact schools can find guidance in their respective accounting manual. Refer to the links in the “Authoritative guidance” section above. You should also refer to the [Compliance Supplement](#) for additional guidance. For programs included in Part 4 of the *Compliance Supplement*, look up the program and refer to “IV. Other Information” for any special SEFA reporting instructions.

# The federal single audit



If your government spends \$750,000 or more in federal awards during your fiscal year, the Uniform Guidance ([2 CFR §200.501\(a\)](#)) requires you to obtain a federal single or program-specific audit for that year. **With the revisions to the Uniform Guidance, the audit threshold will increase to \$1 million for fiscal years beginning on or after October 1, 2024. For example, the new threshold will apply to calendar-year governments in fiscal reporting year 2025, and it will apply to school districts in the 2025–26 school year.**

You do not need to obtain a single audit if your annual Schedule of Expenditures of Federal Awards (SEFA) shows that you spent less than the applicable threshold. However, your federal awarding agency, pass-through agency or the U.S. Government Accountability Office may request to review your records at any time ([2 CFR §200.501\(d\)](#)). If your government's federal expenditures are less than but almost at the threshold, double-check the reported programs and expenditures on your SEFA and schedule of state financial assistance to ensure you included and properly classified all activity. Failure to receive a timely single audit because of an incorrect SEFA can lead to audit findings and increased costs.

This section covers some of the basic single audit requirements, including how to schedule it, how auditors scope it and auditee responsibilities. It also explains when you must submit your single audit report, what your reporting package must include, what happens when you get an audit finding and whether you may recover some of the audit costs.

## Audit requirements overview

Subpart F of the Uniform Guidance describes the federal single audit requirements ([§200.500-§200.521](#)). You should read them in full, in addition to the guidance in this section. Contact your federal awarding agency or audit team if you have questions.

### Scheduling your audit

The State Auditor's Office conducts federal single audits for all state agencies, colleges and universities combined, and all local governments that spent more than \$750,000 in federal awards in one year. Local governments include cities, counties, school districts and other special purpose districts. If you require a federal single audit, contact your local audit manager to schedule it. You can look up your audit manager by using our "Find Your Audit Team" tool on our [website](#).

## Why is it called a single audit?

Before the Federal Single Audit Act of 1984 – and the Single Audit Act amendments of 1996 – recipients were subjected to multiple, uncoordinated and diverse audits every year from various federal agencies. Under this legislation and its amendments, each recipient now receives one standardized audit – a “single audit” – for federal program compliance purposes.



## Audit scope of a single audit

The Uniform Guidance specifies the standards and scope for the single audit in [2 CFR §200.514](#). Auditors must conduct audit work in accordance with generally accepted government auditing standards ([GAGAS](#)), otherwise known as the Yellow Book requirements. The audit must include:

- **Financial statements:** The auditor must provide an opinion or a disclaimer as to whether your financial statements are fairly presented in all material respects in accordance with your basis of accounting. The auditor must also determine whether your SEFA is fairly presented in all material respects in relation to your financial statements taken as a whole.
- **Financial reporting/internal controls:** Audit standards require auditors to gain an understanding of your internal controls to plan and design procedures for the financial statement audit. The auditor must also report on your internal control over financial reporting. The auditor does not provide an opinion on your internal controls but will report certain control deficiencies they find during the engagement.
- **Financial reporting/compliance:** The auditor must issue a report over your compliance with laws, regulations, contracts and award agreements, and any noncompliance that could have a material effect on your financial statements. If the auditor detects material compliance, they must report it.
- **Federal programs/internal controls:** The auditor must gain an understanding of your internal controls over compliance requirements for the purpose of planning the audit. The auditor must also test those controls and issue a report related to this work. The auditor does not provide an opinion on your internal controls but must report certain control deficiencies they find.
- **Federal programs/compliance:** The auditor must issue an opinion or disclaimer as to whether you complied with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget's [Compliance Supplement](#) that could have a direct and material effect on each of your major programs. For most programs included in Part 4 of the *Compliance Supplement*, federal agencies are limited to their top six compliance requirements for audit purposes (per federal program/cluster), except for research and development, which is limited to seven. Refer to Section 2 of this handbook for more information about the common compliance requirements.

### **Audit scope for a program-specific audit [2 CFR §200.501\(c\)](#)**

You may elect to have your auditor perform a “program-specific” audit if you meet both of these criteria:

- You expend federal funding under only one program (or cluster), excluding research and development. (**Note:** several federal programs may comprise a cluster, forming one program. Part 5 of the [Compliance Supplement](#) identifies federal program clusters.)
- The awarding agency does not require a financial statement audit.

In such cases, the audit scope is limited to 1) the internal controls and compliance of the federal program and 2) the SEFA (see Section 4 of this handbook for more information). The auditor does not audit your financial statements. To learn more about program-specific audits, refer to [2 CFR §200.507](#).

### **Your responsibilities as the auditee**

The Uniform Guidance ([2 CFR §200.508](#)) requires you to:

- Arrange for the required audit and ensure it is properly performed and submitted by your deadline (for more information, refer to the “Audit report submission deadline” section below, which continues on the next page)
- Prepare financial statements including the SEFA in accordance with [2 CFR §200.510](#)
- Promptly follow up and take corrective action on audit findings. This includes preparing a summary schedule of prior audit findings and a corrective action plan in accordance with [2 CFR §200.511\(b-c\)](#). (Refer to the “Audit findings” section on p. 101 for more information.)
- Provide your auditor access to personnel, accounts, books, supporting documentation and any other information they need to perform the required audit

### **Audit report submission deadline**

You must submit your completed audit, reporting package and data collection form to the Federal Audit Clearinghouse (FAC), which is the repository of record for Subpart F reporting packages and the data collection forms. All federal agencies, pass-through entities and others interested in a recipient’s reporting package and data collection form must obtain it at [www.fac.gov](http://www.fac.gov). You must submit these materials to the FAC within 30 calendar days after you receive the auditor’s report(s) or nine months after the end of the audit period, whichever is earlier, as required by [2 CFR §200.512](#). The audit report’s issuance date is your date of receipt. If the due date falls on a Saturday, Sunday or federal holiday, the reporting package is due the next business day.



You should not expect to receive an extension, unless specifically granted by the U.S. Office of Management and Budget in accordance with the authority in [2 CFR §200.102\(a\)](#). **For fiscal years beginning on or after October 1, 2024, the Uniform Guidance revisions will include an option for an extension when the nine-month timeframe would place an undue burden on the auditee. You must obtain approval for this from your cognizant agency for audit or oversight agency. Refer to [2 CFR §200.512\(a\)\(1\)](#) for details.**

The State Auditor's Office assists you with the data collection form process. However, you must do your part to perform your certifications on time. If you do not submit your reporting package on time, the FAC will consider it late.

If you submit a late audit report to the FAC, you will not qualify as a low-risk entity for audit purposes until you have submitted two consecutive annual audit reports on time. (Additionally, you must meet all other criteria to qualify as a low-risk auditee.) If you lose your low-risk auditee status, your auditor must increase audit coverage from 20% to 40% of your total SEFA dollars, which may increase your audit costs.

### Elements of the reporting package

Your reporting package must include the following items, in accordance with [2 CFR §200.512\(c\)](#):

- Financial statements, including the SEFA, discussed in [2 CFR §200.510\(a–b\)](#)
- Summary Schedule of Prior Audit Findings discussed in [2 CFR §200.511](#). **Figure 33** on the next page illustrates an example schedule.

**Note:** This schedule briefly describes the auditee's actions to resolve prior audit findings. Your auditor will prepare certain sections of a template and provide it to you. You, as the auditee, must use this template to prepare your response, on your own letterhead. For each finding, you will provide the status and a description of your corrective action.

- Auditor's reports discussed in [2 CFR §200.515](#)
- Corrective action plan, discussed in [2 CFR §200.511\(c\)](#), in response to findings identified in the current audit (see the "Audit findings" section below for more information). **Figure 34** on the next page illustrates an example template.

**Note:** The auditee must prepare a corrective action plan to address each audit finding included in the current year financial or single audit report. As an auditee, you must provide this plan in addition to your response that your auditor will publish in the actual finding. Your auditor will provide you a template to document your corrective action taken, but you must provide this information on your own letterhead.

**Figure 33. Example Summary Schedule of Prior Audit Findings****Summary Schedule of Prior Audit Findings****Evergreen County****January 1, 2022 through December 31, 2022**

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> 2021	<b>Report Ref. No.:</b> 60301	<b>Finding Ref. No.:</b> 2021-001
<b>Finding Caption:</b> Internal controls over County operations are inadequate to ensure compliance with state laws and regulations and to safeguard public resources.		
<b>Background:</b> County management is responsible for designing and following a system of internal control that provides reasonable assurance of compliance with state laws and County policies and the safeguarding of public resources. During our audit, we found the County does not have effective internal controls over procurement, disbursements, and open public meetings.		
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The County has committed additional resources to improving its internal controls, including providing relevant training to appropriate department staff and manager involved or overseeing procurement, disbursements, and open public meetings, and has revised its policies and procedures to address internal control deficiencies. Additional risk assessments were performed and will continue to be performed to assess areas where the County may be at the highest risk of noncompliance, fraud, abuse, waste, or loss. We take seriously our stewardship of public resources and in ensuring the effective and efficient delivery of services. The County is confident steps taken have significantly improved its internal controls to ensure both compliance with applicable laws and policies, as well as the safeguarding of public resources.</i>		

**Figure 34. Example corrective action plan template**

<b>Finding ref number:</b>	<b>Finding caption:</b>
<b>Name, address, and telephone of auditee contact person:</b>	
<b>Corrective action the auditee plans to take in response to the finding:</b> (If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence).	
<b>Anticipated date to complete the corrective action:</b>	

**Failure to obtain annual required audit(s)**

If you do not obtain an audit in accordance with the Uniform Guidance, federal agencies and pass-through agencies must take action against you, as outlined in [2 CFR §200.505](#) and [2 CFR §200.339](#). Some possible actions include temporarily withholding payments until the corrective action is taken or suspending or terminating the federal award. In extreme cases, they could initiate suspension and debarment action against you.

## Audit findings

“Findings” are significant issues noted by the auditor that are disclosed in your audit report, which is a public record. Auditors must report in accordance with the requirements in [2 CFR §200.515-.516](#) and [GAGAS](#), and prepare a schedule of findings. **Figure 35** to the right illustrates the State Auditor’s Office’s template for single audit findings.

You may receive repeat findings. Auditors are required to follow up and continue to issue a finding for internal control deficiencies until you fully resolve them in the year subject to audit.

### Types of audit findings

The Uniform Guidance includes audit reporting requirements for federal programs in [2 CFR §200.516](#), and incorporates GAGAS requirements for financial statements. Your auditor may report a finding for any of the following reasons related to your federal programs and financial statements:

### Federal programs

- Inadequate internal controls over major federal programs and significant instances of abuse relating to major federal programs. (You will see the terms “significant deficiency” or “material weaknesses” in an internal control finding. These are terms that convey the seriousness of a reportable internal control deficiency, or combination of deficiencies. The American Institute of Certified Public Accountants defines these terms in its [Codification of Statements on Auditing Standards](#), section 935, Compliance Audits, paragraph 11.)
- Material noncompliance with laws, regulations, or terms and conditions of a federal award related to a major federal program
- Questioned costs exceeding \$25,000. (A questioned cost means an amount, expended or received from a federal award, that in the auditor’s judgment is noncompliant or suspected noncompliant with federal statutes, regulations, or the federal award’s terms and conditions. Questioned costs might also include those that lack documentation, appear unreasonable or did not reflect the actions a prudent person would take in the circumstances.)
- Known or likely fraud affecting a federal program
- Material misrepresentation of the status of a prior audit finding, within the auditee’s Summary Schedule of Prior Audit Findings

**Figure 35. Audit finding template**

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
City of Example January 1, 2024 through December 31, 2024	
2024-001	<p>The City did not have adequate internal controls for ensuring compliance with federal reporting requirements.</p> <p>Assistance Listing Number and Title: 12,345            Federal Agency Name: U.S. Department of Interior            Federal Award/Contract Number: N/A            Pass-through Entity Name: State of Washington            Pass-through Award/Contract Number: N/A            Known Questioned Cost Amount: \$100,000            Prior Year Audit Finding: N/A</p> <p><i>Background</i></p> <p><i>Description of Condition</i></p> <p><i>Cause of Condition</i></p> <p><i>Effect of Condition</i></p> <p><i>Recommendation</i></p> <p><i>City’s Response</i></p> <p><i>Auditor’s Remarks</i></p> <p><i>Applicable Laws and Regulations</i></p>

### Financial statements (GAGAS requirements)

- Inadequate internal controls over financial reporting systems
- Noncompliance with laws, regulations, contracts or grant agreements that materially affects the financial statements
- Fraud that is material to the financial statements

### Federal agency response to audit findings

If you receive a finding, the federal agency or the pass-through agency that provided the funding for the program must issue a management decision within six months of the FAC's acceptance of the audit report. Similarly, if you are the pass-through entity, and any of your subrecipients receive an audit finding related to awards you gave them, then you must issue a management decision to your subrecipient.

A **management decision** is the federal agency's or pass-through entity's written determination, provided to the auditee, of the adequacy of the auditee's proposed corrective actions to address the finding, based on its evaluation of the audit finding and proposed corrective actions ([2 CFR §200.1](#)). It must clearly state whether 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, in accordance with [2 CFR §200.521](#). It should also include a timetable for follow-up, if the auditee did not complete the corrective action.

### Audit cost recovery

If the Uniform Guidance requires you to obtain an audit – and you obtain one that complies with Subpart F – then you may consider a reasonable, proportionate share of audit costs as an allowable program cost in accordance with [2 CFR §200.506](#), which references [2 CFR §200.425](#). Additionally, if you obtain a financial statement audit in one year but no single audit, you may include the costs in an indirect cost pool for a cost allocation plan or indirect cost proposal.

However, if your federal award (or statutory authority) is more restrictive than the Cost Principles, then your federal award will govern.

## Section 6

# Additional resources

## Authoritative guidance on federal awards and financial reporting

- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – [2 CFR §200](#)
- Uniform Guidance 2024 changes: The U.S. Chief Financial Officers Council’s page – [Uniform Guidance: Title 2 of the Code of Federal Regulations](#) – this links to a redline version of the Uniform Guidance revisions and a video announcement.
- U.S. Chief Financial Officers Council – [2 CFR Frequently Asked Questions, published May 2021](#)
- Code of Federal Regulations – [www.ecfr.gov](http://www.ecfr.gov)
- Assistance Listings – [SAM.gov](http://SAM.gov)
- Office of the Washington State Auditor’s *Budgeting, Accounting and Reporting System* (BARS Manual) – [GAAP](#) and [cash basis](#) (guidance for federal award accounting and preparing the Schedule of Expenditures of Federal Awards)
- The [Accounting Manual for Public School Districts in the State of Washington](#) refers school districts, charter public schools and state-tribal education compact schools to the Office of Superintendent of Public Instruction’s [Administrative Budgeting and Financial Reporting Guidance webpage](#) for detailed reporting instructions for the Schedule of Expenditures of Federal Awards

## Administrative requirements guidance

- Search for suspended and debarred parties – [SAM.gov](#)
- U.S. Department of Labor – Federal wage rates/Davis-Bacon Act – [Wage Determinations at SAM.gov](#)
- U.S. Department of Labor – [Prevailing Wage Resource Book](#), live [prevailing wage trainings](#) and [recorded webinars](#)
- Association of Government Accountants – [Subrecipient vs. Contractor Checklist](#) (for subrecipient monitoring)
- Association of Government Accountants – [Risk Assessment Tool](#) (for subrecipient monitoring)

## Internal controls guidance

- Government Finance Officers Association – [Best Practices: Grant Administration](#)
- Office of the Washington State Auditor – [Federal Programs Risk Assessment Tool](#)
- U.S. Government Accountability Office’s [Green Book](#) (*Standards for Internal Control in the Federal Government*) – free to download
- The Committee of Sponsoring Organizations of the Treadway Commission – [Internal Control – Integrated Framework](#) – purchase ebook or physical copy
- Washington Secretary of State – [Local Government Common Records Retention Schedule](#)

## Single audit guidance

- Federal Audit Clearinghouse/Data Collection Form – [Submitting an audit](#)
- Office of Federal Financial Management’s annual [Compliance Supplement](#).  
You may want to refer to:
  - Part 3 – Compliance Requirements (the common administrative requirements)
  - Part 4 – Agency Program Requirements (program guidance by federal agency; not all programs are included)
  - Part 5 – Clusters of Programs
  - Part 6 – Internal Control
  - Part 8 – Appendices (refer specifically to Appendix VII – Other audit advisories. This section was added in 2021 for COVID-19 programs)

## Federal award management training for employees

- Washington Finance Officers Association – Usually offers training at the annual conference and other times throughout the year – [www.wfoa.org](http://www.wfoa.org)





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– Pat McCarthy, State Auditor

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