



Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards: Final Rule Published December 26, 2013

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INTRODUCTION

The emphasis of the revision to the Uniform Administrative Requirements (UAR) is to improve performance while using fewer resources. The general concept is to streamline the guidelines into a uniform tool thereby reducing the number of duplicative and/or conflicting requirements for grants management across Federal programs. For grantees with more than one funding source (Department of Health and Human Services; Department of Housing and Urban Development; Department of Homeland Security, etc...) the differing administrative and accounting/auditing requirements have been reduced to one set of rules.

The **NEW** Uniform Administrative Requirements combines circulars:

- A-21, A-87, A-110 and A-122
- A-89, A-102 and A-133
- A-50

These circulars used by State, Indian Tribal and Local Governments; Non-profit Organizations, Hospitals and Institutions of Higher Education covered administrative requirements such as cost principles and audit requirements. By reducing these circulars in to one uniform set of regulations, those abovementioned organizations can streamline the regulatory requirements of their own organizations, thereby also reducing the time and effort required for use and implementation of Federal programs.

The reforms emphasized are designed to provide:

- Elimination of duplicative and/or conflicting guidance.
- Improved focus on performance vs. compliance for accountability.
- Encouragement of shared services including Information Technology.
- Consistent treatment and transparency of costs.
- Better use of allowable resources.
- Standard definitions and data elements that allow business practices to be more uniform.
- Policies that are more family friendly by improving a balance between family & work life.
- Strengthened oversight by requiring greater disclosures, implementation of greater risk assessments prior to spending vs. discovery after spending.
- Redesign of independent audit requirements to target waste, fraud and abuse.

This manual will assist grantees in developing compliance protocols. **It is not all inclusive and grantees must continue to review the full set of Uniform Administrative and Program regulations, NOFA's and grant agreements for specifics as they relate to individual programs.** Please remember that these are broad regulations that are not specific to any one program, but are specific to Federal awards and compliance.

As always, your Local Field Office CPD Representative is your first point of contact. Stay updated through HUD's Resource Exchange: <https://www.hudexchange.info>

SUBPART D-Post Federal Award Requirement Standards for Financial and Program Management -2 CFR §200.300

HUD'S JOB is to award the funds for the programs and purposes intended. HUD must also communicate all of the relevant rules and regulations. This is done through a number of resources, including webinars, websites, one-on-one training and FAQs.

The **GRANTEE'S JOB** is to carry out programs and comply with all the strings attached. Given the level of reporting, compliance and spending requirements, the UAR is designed to be a "one for all: all for one" partnership. For each area of compliance, there is now one set of rules for administration and cost controls.

GRANTEE REPORTING REQUIREMENTS

- Measuring performance through a uniform standard approved by the Office of Management and Budget (OMB).
 - Line of Credit Control System (LOCCS)
 - Integrated Disbursement and Information System (IDIS)
 - Homeless Assistance Application and Grants Management System (eSNAPs).
- Management of **financial systems** through controls and transparency: If requested, grantees should be able to provide **source documents** for all expenditures. Some examples are:
 - Invoices for supplies, equipment and job costs.
 - Time Distribution Records for personnel costs.
 - Payroll Records showing cost distribution funding sources: (single or multiple sources and how that has been allocated or documented).
 - Evidence of income tax and fringe benefit costs paid or deferred.
 - Evidence of eligible costs being charged to proper activity lines: (e.g. administration vs. service delivery or supportive services vs. operations).
 - Evidence of subgrantees compliance: Pass through for services, housing rehabilitation or other activity does not negate the grantee's responsibility for compliance.
- With any award, grantees must implement **internal controls**:
 - Development of **Policies and Procedures** for Federal grants management – Including procedures for:
 - Hiring including job descriptions, salary determinations and minimum qualifications coupled with a staff organization chart.
 - Allocating time/expenditures.

- Soliciting bids for both professional and other service agreements.
- Conflict of Interest Policy including disclosure.
- Dispute Resolution Policy including customer complaints and options for solution – if this, then what?
- Spending policy.
 - Who’s allowed to buy what and how?
 - Determining how awards are allocated.
 - Thresholds for approval and how that is recorded.
- Bid Solicitations and awards.
 - Prevailing wage (where applicable and what’s required).
 - Women and Minority Owned Business Entities (W/MBE).
 - Section 3 Hiring and data tracking for compliance.
- Development of **Accounting Records** that reflect the grantee’s budget compared to actual expenditures; benchmarks for spending.
 - Grant identification (through fund accounting) and line item categories to ensure funds are charged to the proper categories and the proper fund, such as:
 - Public Services
 - Public Facilities
 - Housing Rehabilitation
 - CHDO Operating Expenses
 - Administration
 - Supportive Service
 - Operating Expenses
 - HMIS
 - Planning, etc.
 - HUD should be able to match any expense to both the grant amount as an eligible expenditure and to the proper line item as an eligible category; further tracking to LOCCS and IDIS.
- Development of (if necessary) a tracking system for **program income** (received and expended) and drawdowns completed.
 - Ability to identify and properly record program income:
 - Cost incidental to program income may be deducted, unless already charged to the federal award in some other way (e.g. administrative costs for loan portfolio management).
 - Government revenues: taxes, special assessments, levies, fines, etc... are NOT program income.

- If a subrecipient is allowed to keep and re-spend program income, how does this appear in the grantee's records? Does it match what is reflected in IDIS Reports?
- If the grantee has a revolving loan account for housing rehabilitation, there must be evidence of program income earned (source, date and amount) and later expended prior to drawing from the grantee's line of credit. How does your agency track this?
- If the housing rehabilitation program (or any other) is administered by a subrecipient, have the program income protocols been identified and agreed to by both parties?
- Management of **drawdowns** from and **payments** to subrecipients:
 - While HUD prefers grantees use reimbursement as a method for making draws from the Line of Credit Control System (LOCCS), payment in advance is an option, provided:
 - Grantees and subrecipients must be able to provide evidence of proper controls:
 - Minimizing the time between the draw and the payout.
 - Minimizing the amount of funding to immediate cash requirements. (e.g. paying advanced child care expenses for subsequent month; rental payments on the first of each month).
 - If reimbursed, grantees must make payment within 30 days of receipt of billing.
- Management of **program match** (if required):
 - For each program, matching requirements differ, but the concept of maintenance of records is similar:
 - Identifying the match requirements (% of what).
 - Determining what is eligible for match:
 - Unrecovered indirect costs
 - Volunteer services.
 - Third-party service provision.
 - Cash or In-Kind.
 - Must also be identified in the grantee's approved budget.
 - Not paid from another federal award.
 - Documentation of 'projected' vs. actual match when requested.
- Methods to identify necessary **budget modifications** and **program changes**:
 - A grantee's 'plan' includes both a budget for the activity and a performance plan.
 - Determining the difference between a minor modification and a substantial amendment determines the method required to make changes.

- Changes must be requested to HUD and approved for:
 - Change in the scope of services and/or the program objectives.
 - Change in key personnel.
 - Reduction in program time of 25% or greater.
 - Change in greater than 10% of total award.
 - Modifications or change to cost-sharing or match requirements.

PROCUREMENT

Along with developing general policies, grantees must establish standards for **procuring goods and services** that conform to federal standards, but also comply with state and local laws. Records must be maintained in detail to document the method, but also identify who was selected and why, must provide evidence of competition and the basis for the price.

Selection standards can include evidence of contractor's level of responsibility, past performance and ability to meet the compliance standards identified in the project specifications.

Procurement standards should include type of procurement method, basis for selection, and rationale for the method selected and detailed specifications for bid:

- If a bid solicitation is for housing rehabilitation, "replace windows" is not sufficient to ensure competitive bidding. Details, size, shape, type of window required, minimum energy efficiency noted, type of frame, lock, with or without screens, etc...and the quantity of windows to be replaced should be included in order for contractors bids to be on the same specs.
- Descriptions must be clear and accurate.
- Standards must also be outlined and the competitive criteria identified when soliciting bids. (Awarded based on price or points).
- Solicitation should be conducted in ways that provide full and open competition including not being too restrictive:
 - Placing unreasonable requirements (e.g. ONLY contractors with prior experience may apply).
 - Specifying only a brand name vs. generic or approved equal would limit suppliers and competition.

Procurement standards must outline specific standards of conduct including avoiding a **conflict of interest**:

- Standards for conduct including identification of a “real or apparent conflict” that includes selection, award or administration of contracts.
- Relationships when an employee, officer or agent, any member of immediate family, partner or organization has a financial or other interest.
- Includes solicitation or acceptance of gratuities, favors or anything of monetary value from contractors or parties to subcontracts.

Other expectations include:

- Avoiding unnecessary purchases.
- Encouraging state and local intergovernmental agreements for common or shared goods.
- Use of federal surplus property. <http://www.govsales.gov/govsales/govsales/>
- Use of ‘value engineering’ clauses in construction to offer reasonable cost reductions.
- Use of full & open competition.
- Use of pre-qualified lists may not preclude others from becoming qualified during solicitation.

METHODS OF PROCUREMENT

Non-federal entities must use one of the following methods of procurement when using federal funds:

- **Micro-purchases** – not to exceed \$3,000 in the aggregate for the fund year:
 - Or \$2,000 if Davis-Bacon (prevailing wage) rules apply.
- **Small Purchase Procedures** – used for securing smaller items; price or rate quotes should still be obtained from an adequate number of sources (but can be less detailed – e.g. phone call or web search).
- **Sealed Bids** – Most commonly used when securing housing rehabilitation contractors. Solicited and a firm fixed price contract is awarded to the lowest responsible bidder.
 - Complete work specifications must be made available.
 - Two or more responsible bidders willing to compete.
 - Selection may be made on the basis of price.
 - Invitation for bids is made public, provides for sufficient response time and adequate number of contractors solicited.
 - Bids are publicly opened at the time and location identified in the solicitation.
 - Firm fixed price bid awarded to the lowest reasonable and responsible bidder.
 - Any or all bids may be rejected for cause.
 - Solicitation includes W/MBE encouragement.
- **Competitive Proposals** – used for circumstances where sealed bids are not appropriate.

- Evaluated on factors in addition to cost.
- All factors for evaluation must be outlined in the proposal.
- Must be solicited from an adequate number of qualified sources including W/MBE solicitation.
- Written method for conducting evaluations of proposals received and for selection.
- May be used for qualification based procurement of (Architectural or Engineering) professional services* whereby qualifications are rated first and compensation is negotiable. *ONLY A/E professional services; not A/E other services.
- **Noncompetitive Proposals** – May be used only when one or more of these circumstances apply (evidence must confirm situation):
 - Single source availability.
 - Public exigency or emergency will not permit the delay of competitive bidding.
 - Authorized in advance by HUD.
 - Inadequate competition after repeated effort.

CONTRACTING WITH WOMEN & MINORITY OWNED BUSINESS ENTERPRISES (W/MBE)

Grantees must take affirmative steps in soliciting minority businesses, women's business enterprises and labor surplus area firms. It is not sufficient for grantees to merely track the level of awards to W/MBE enterprises.

Affirmative steps must include:

- Using qualified (W/MBE) solicitation lists when procuring contracts.
- Assuring that solicitations occur whenever potential sources are identified.
- Dividing total requirements (e.g. job specifications) into smaller contracts to enable small and minority owned businesses to participate in bid process.
- Establishing delivery schedules that might facilitate participation by small business owners.
- Soliciting the services and assistance of the Small Business Administration and/or the Minority Business Development Agency.
- Requiring general contractors or subrecipients to also take affirmative steps when hiring subcontractors and/or laborers.
 - Some examples for smaller businesses might be used include:
 - Cleaning Services.

- Landscaping.
- Casual Labor – demolition, hauling.
- Painting.
- Material recovery – metals to be recycled.

CONTRACT COST AND PRICE

Grantees are required to perform a cost analysis for every procurement action that is above the “Simplified Acquisition Threshold” – defined at \$15,000 or greater and adjusted for inflation. As a rule, cost estimates must be made independent of bid solicitations or proposals.

Breakdown of tasks in order to avoid this requirement is not allowed. If work specifications are provided to a general contractor in one instance and to several independent subcontractors in another, if the project has the same address and the award to the family is estimated to exceed the threshold, cost analysis must be completed.

Cost analysis is another way for grantees to develop assurances that costs are reasonable. The basis for awarding the contract also has a benchmark for budgeting and aids in determining if a contractor has not underbid a project to the extent it can’t be done adequately for the price. A ten (10%) percent variation from cost estimates and bid price may be sufficient to warrant re-evaluation and/or to confirm mistakes were made when proposals were written.

PERFORMANCE AND FINANCIAL MONITORING & REPORTING

HUD may only require grantees to provide information on Office of Management and Budget (OMB) approved data collection elements. Your field office staff or CPD Representative may assist grantees in designing or duplicating data collection methods in order to meet compliance, but they may not require grantees use them.

Information must be required based on the terms and conditions of the grant agreements (e.g. CDBG – Federal Financial Report - SF425s – quarterly and the CAPER - annually). For CoCs, the reporting tool in eSNAPs is the Annual Performance Report (APR).

Information data collection provided by the grantee is then compared to proposed accomplishments in the grant agreement. The interim results of the data collection will also be compared to the overall accomplishments for the program year, reviewed for accuracy and

ultimately compiled for trend analysis, performance review and to determine future funding needs and allocations.

Grantees should be prepared to provide an explanation if performance has not met projected goals, such as: “funding wasn’t sufficient” and “costs were greater than planned” or for any other significant deviation from the proposed goals and objectives. (e.g. Full lease-up of all units was delayed due to the funding release dates at HQ) or (Housing Rehabilitation Staff change-overs and training resulted in some delays in project goals being met.)

While some delays or discrepancies may be met with concern, grantees should always keep HUD informed related to any performance issues that may result in adverse outcome numbers. This is especially true, where remediation plans must be designed (CDBG), where findings may be warranted or where technical assistance may assist with problem solving.

PERFORMANCE

Grantees are also responsible for oversight of and compliance by subrecipient organizations. It is not sufficient for grantees to accept contract conditions whereby the subrecipient agrees to comply with the regulations; the grantee must provide (assurances such as program and activity monitoring) that compliance is taking place.

This is also the case in performance measurement. If a subrecipient declares that they will provide services to a number of low- or moderate-income households, it is up to the grantee to monitor the program and ensure the services are being provided; not only at the level declared, but also to eligible households and for the costs as stipulated in the agreement. The types of detail required should mirror that of the grantee. Income verification, target area and sign-in sheets to document participation are just a few.

REPORTING ON REAL PROPERTY

Where applicable, grantees and subrecipients must submit reports annually on real property where the Federal government retains an interest. In each case, a capital agreement, a mortgage, note or security interest lien will identify the terms and conditions of the reporting requirements.

MULTIPLE ROLES

There are many instances where a non-federal entity will wear several hats with regard to Federal funding. Those include, “grantee”, “subrecipient” and possibly “contractor.” The most recent example might be a nonprofit entity working with a local community on the Neighborhood Stabilization Program (NSP). Their role as a Housing Counseling Agency would be as a subrecipient. For property acquisition, rehabilitation and resale, the agreement might be as a developer. For each role identified, the rules are different. Instead of detailing the variables here, grant agreements, contractual agreements and funding awards should spell out the requirements.

RECORD RETENTION and ACCESS

Documentation for most grant programs must be retained for three years from the final transaction for that particular grant. Financial records, reports, invoices, supporting documents, personnel and payroll records, drawdowns, program income, loan portfolio updates, etc... represent the myriad of documents that may need to be provided when requested. Grantees need to keep this in mind when designing their **retention programs**.

The final transaction on an award may actually be several months or years from the final date that the 3-year clock starts ticking. (e.g. HOME Program activities often take years to complete; Neighborhood Stabilization Program close-outs don't occur until properties are occupied and/or units are sold. Land Banks may hold properties for ten years or longer before they're reutilized.

For homeless programs, such as Shelter plus Care, funding agreements are multi-year and may take five or more years before the funds are expended and the program closed. Capital Grants require annual reporting updates for fifteen or more years.

There are also a number of exceptions that may extend the amount of time that records must be retained; the examples above are only a few. Methods of retention and storage of information vary as much as the awards they represent.

An Executive Order issued by President Obama in May 2013 “Making Open and Machine Readable the New Default for Government Information” states that where practicable, **methods other than paper copy are preferred**. If paper is required by HUD, one original and two copies are the maximum. Stay tuned for updates to this policy. However, in the UAR, it is stipulated that *“When original records are electronic and cannot be altered, there is no need to create and retain paper copies. When original records are paper, electronic versions may be substituted through the use of duplication or other forms of electronic media provided that they*

are subject to periodic quality control reviews, provide reasonable safeguards against alteration and remain readable.”

Grantees must stipulate in agreements that access to records, paper or otherwise, which are pertinent to the federal award, must be provided. Only in extraordinary circumstances (e.g. revealing victims of crime), would such access warrant protection. Routine monitoring would not be considered extraordinary, nor would it necessitate access to sensitive documents.

GRANTEE NONCOMPLIANCE

If a grantee does not comply with the Federal statutes, regulations or the terms & conditions of a Federal award, HUD may impose **additional grant conditions**. Additional remedies for non-compliance include:

- Temporarily withholding cash payments until the deficiency can be corrected.
- Suspending or terminating the Federal award:
 - By the Federal awarding agency or pass-through entity for failure to comply with terms and conditions.
 - By the Federal awarding agency or pass-through entity for cause.
 - By the Federal awarding agency or pass-through entity with the consent of the grantee; termination conditions must be agreed upon, including effective date and whether a full or partial termination and the amount to be terminated.
 - By the grantee providing written notification identifying the reasons for termination. HUD may determine whether the termination by the grantee is accepted or warrants further action.
 - Whether partial or full termination, both HUD and the grantee remain responsible for the closeout and post closeout requirements.
- Disallowing all or part of the cost of the activity in question.
- Initiating suspension and/or debarment proceedings.
- Withholding further Federal awards.
- Taking other remedies that might be legally available.

NOTIFICATION OF TERMINATION AND OPPORTUNITES TO OBJECT

HUD is required to provide notification of **termination**. The grantee must be advised that the termination decision may be considered when evaluating future applications from the grantee. If an award is terminated, HUD must also report the performance weakness in the FFATA website: <https://www.fsrs.gov/> in order to notify other entities of poor performance.

HUD must also provide the grantee with an opportunity to object and to provide information challenging the suspension and/or termination. Details of the opportunity are spelled out in grant agreements and the applicable program regulations. HUD must comply with requirements for hearings, appeals or other administrative proceedings which the grantee is entitled to.

EFFECTS OF SUSPENSION & TERMINATION

Costs incurred by the grantee during a **suspension** or following a **termination** are not allowable unless expressly authorized by HUD in the notice of termination or suspension. Costs may be allowable if:

- Costs were from obligations properly incurred before the effective date of the action and not the cause.
- Costs would be allowed had the award not been terminated or suspended.

GRANT CLOSEOUTS, POST CLOSEOUTS AND CONTINUED RESPONSIBILITIES

HUD will close out Federal awards when it has determined that all applicable administrative actions and all required work have been completed. The proper steps for closeout at the end of the performance period are:

- Grantee has submitted all performance, financial and required reports.
 - These are due no later than 90 days past the contract end date.
 - An extension may be requested/awarded for cause.
- Grantee must liquidate all obligations as specified in the terms and the conditions of the agreement.
- Grantee must make prompt payments to subrecipients for allowable reimbursable costs.
- Grantee must refund any balances of unobligated cash unless it has been authorized to be retained (e.g. revolving loan fund program income).
- Grantee must make settlement with any upward/downward adjustments after closeout reports are made.

- Grantee must account for any real or personal property.
- HUD must complete all closeout actions no later than one year after receipt and acceptance of all required final reports.

Close out does not affect the right of HUD to disallow costs or recover funds based on a later audit or review. However, HUD must make the determination prior to the conclusion of the record retention period. The grantee's obligation to return funds as a result of adjustments is not affected by the closeout.

Other responsibilities related to audits, property disposition, records retention and property management are also not affected by the closeout.

COLLECTION OF AMOUNTS DUE

The grantee must repay any amount in excess of what has been determined it is entitled to. If not paid within 90 days of demand, HUD may reduce the debt by:

- Making an administrative offset against other awards.
- Withhold advance payments otherwise due to the grantee.
- Other actions as permitted by Federal statute.

Unless otherwise provided by statute or regulation, HUD will also charge interest on an overdue debt. In the event of an appeal, interest computed is not extended during that process.

SUBPART E-Cost Principles – 2 CFR §200.400

POLICY GUIDE

The primary function of **cost principles** is to ensure that the Federal awards are paying their fair share of costs; no more and no less. The responsibility of that assurance falls on the grantee. The premise is:

- The grantee has sound management practices that provide for efficient and effective award administration.

- The grantee assumes responsibility for administering the award based on the terms and conditions outlined in the grant agreement, the regulations and the program objectives.
- The grantee will employ the proper form of management tools necessary to assure compliance.
- The grantee will have existing accounting policies and practices sufficient to support award cost principles and provide for adequate documentation of those costs.
- The grantee applying indirect cost principles will apply them consistently providing for the ‘fair share’ concept as noted above.
 - In order to apply indirect cost principles, grantees must negotiate and/or have an approved indirect cost allocation plan (ICAP).
 - At this writing HUD has deferred approval to HHS through a Memorandum of Understanding.
 - Please contact your Field Office for more information about ICAP acceptance and approval.
- The grantee may not keep or earn ‘profits’ as a result of indirect costs allocated to an award.

APPLICATION

The title of this section may be a bit misleading. It is not about applying for the award, but applying the **principles of eligible costs** to execution of the award. They are meant to be applied to fixed cost pricing in contracts and subcontracts where determining price. Basic considerations when determining costs are:

- Total cost, defined as the sum of the allowable direct and allocable indirect costs.
- In order to be allowable, they must:
 - Be necessary and reasonable:
 - Defined as “...does not exceed that which would be incurred by a prudent person under the circumstances...” at that time.
 - Consideration should be given to the cost of a type generally recognized as ordinary and necessary.
 - Include factors such as sound business practices (e.g. arms-length negotiations).
 - Comparable to market price.
 - Whether the grantee or subgrantee acted with prudence when considering the cost.

- Whether the determination deviates from established practices.
 - Conform to limitations or exclusions (e.g. maximum amount allowed for administration).
 - Be consistent with policies and procedures.
 - Be accorded consistent treatment.
 - Be determined in accordance with Generally Accepted Accounting Principles (GAAP).
 - Not included or used for cost sharing or match for another Federally funded activity.
 - Be documented sufficiently.

ALLOCABLE COSTS

Costs may be considered allocable to a particular Federal award if the goods or services would be otherwise eligible in accordance with benefits received. This is met if:

- The cost was incurred specifically for the award.
- If it benefits both the Federal award and a non-federal award and can be distributed proportionately.
- It is necessary.

Activities that benefit from the grantee's indirect cost, including unallowable costs, will receive an appropriate allocation of indirect costs. Any costs to one Federal award may not be charged to another Federal award, either whole or in part to overcome fund deficiencies.

Direct cost allocations where a cost benefits two or more projects may be allocated to the project based on proportional benefit (e.g. purchasing supplies for transitional housing and emergency shelter in the same building). If the proportional benefit cannot be determined... *"the costs may be allocated or transferred to benefitted projects on any reasonable documented basis."*

Equipment purchases or other capital assets specifically authorized under a Federal award, the costs may be assigned to that award, regardless of the use that may be made of the equipment when it is no longer needed for its original purpose.

APPLICABLE CREDITS

These are credits that might be received and offset expense items allocable to the Federal award. An example might be a refund related to facilities or administrative (F&A) costs from a supplier, a rebate or a discount on a purchase. Insurance refunds, overpayments or other such adjustments also fit this category. If received by the grantee, the allocated cost to the Federal award must be reduced accordingly.

PRIOR WRITTEN APPROVAL

HUD recommends prior written approval for any new or updated allocable cost interpretation and execution. This will provide assurance to grantees and may avoid subsequent disallowance or dispute regarding reasonableness or eligibility of the costs. The UAR states that the grantee may wish to seek the approval from the cognizant agency for the indirect costs.

If there are questionable costs, talk to your CPD Representative and request a written response. There are also many instances where prior written approval is specifically required. *Refer to the specific section of the UAR (2 CFR Part 200.407).*

LIMITATIONS ON ALLOWANCE OF COSTS & SPECIAL CONSIDERATIONS

The statutory requirements on some awards may limit the amount allowed. (e.g. HOME Program - 10% Administration) whereby the total determined by an indirect cost allocation plan is in excess of the allowance. Those costs that exceed the statutory limit may not be recoverable, but in some instances may be used as a match.

In addition, there are some special considerations that grantees may wish to keep in mind when determining allowable costs. Please also note that the UAR is meant to be universal, so what applies to a hospital may not fit the needs of a local government or a nonprofit organization.

ADJUSTMENTS FOR UNALLOWABLE COSTS

As with applicable credits, **any costs deemed unallowable must be adjusted and returned to the federal award.** These adjustments or refunds are designed to correct the proposals used to

establish and do not constitute reopening negotiations of the rate set earlier. The unallowable costs would then be removed from the cost pools and the rate would be adjusted accordingly.

- For rates covering future funding, the allocation would include the adjusted rate.
- For past periods of funding, the grantee may be required to compute the share of unallowable costs, including interest and must be repaid to the Federal government or returned to the line of credit.
- For current funding, either a rate adjustment or a refund would be warranted.
- The amount of unallowable costs included in each year's rate will be equal to the amount included in the base year proposal used to establish the rate.

DIRECT AND INDIRECT (FACILITY & ADMINISTRATIVE) COSTS

There is no universal rule for classifying certain costs as direct or indirect in accounting systems. A cost may be direct with respect to one function and indirect with respect to the Federal award or cost objective. It is crucial that each cost incurred for the same purpose be treated consistently, whether direct or indirect, but not both. This prevents double charging.

DIRECT COSTS

In general, direct costs can be specific to a final cost objective that can be reasonably charged to a specific activity with certainty. In order to distinguish direct or indirect, it's best to identify the Federal award vs. the nature of the cost or the service involved.

A direct cost example would be a case-worker whose sole responsibility was for providing supportive services to homeless youth. The salary and fringe benefits costs are direct; materials and other items might also be direct, but other costs, such as trash and utilities may fall into an indirect cost pool.

Support staff for the program, such as payroll or customer service where time could not be specifically allocated to the Federal award could be treated as indirect. Direct charging of the costs may be appropriate if:

- Support staff was integral to the activity.
- Specific staff is assigned to specific activities.
- Costs are explicitly included in the Federal award.
- The same costs are not recovered as indirect costs.

Minor items such as small direct costs may be treated as indirect costs for practical purposes if consistently applied. Other costs that are not allowable as charges to Federal awards, they must still be taken into consideration as direct costs when determining the indirect cost rate. They may then be allocated the share of the grantee's indirect costs provided they are for:

- Salaries and fringe benefits.
- Space or related expenses.
- Also benefit from the grantee's indirect costs.

For nonprofits, the cost of activities performed by grantees as a service which are necessary to the grantees mission must be treated as direct costs whether allowable or not and allocated an equitable share of indirect costs. These may include:

- Membership fees, subscriptions or dues.
- Providing information to the public.
- Lobbying or public relations.
- Conferences and training.
- Special fund administration.
- Administration of group benefits and compensation.

INDIRECT FACILITIES AND ADMINISTRATION (F&A) CLASSIFICATION OF COSTS FOR NONPROFITS

For major nonprofit organizations, defined as those that receive greater than \$10 million in direct Federal funding, facilities and administration are separated into two broad categories. For most nonprofits, because of the diversity of characteristics, it is not practical to separate costs in this way. Based on the earlier recommendation, grantees are reminded to identify with the Federal award rather than the goods and services when determining indirect or indirect cost factors for Federal awards.

Typical examples of indirect costs for many nonprofit organizations are:

- Building and equipment depreciation.
- Building operations and maintenance costs.
- General administration costs.
- General personnel costs for administration:
 - Executive Director Salary

- Personnel or Human Resources
- Accounting
- Building & Engineering (for Housing)
- CoC Administration
- HMIS

FEDERAL ACCEPTANCE OF NEGOTIATED INDIRECT COST RATES

If a grantee has negotiated an indirect cost allocation rate with the Federal cognizant agency, the negotiated rate must be accepted by all Federal awarding agencies. The only exception would be if the Federal award, by regulation or statute required a different rate. If a modification is justified, the Federal awarding agency must:

- Notify OMB of the differences.
- Implement and make publicly available the justification for the change.
- If included in a Notice of Funding Availability (NOFA), policies must be published.

Requirements for development of indirect cost rate proposals and indirect cost rate plans are included as appendices to the UAR. For Indirect Cost Rate Plans, nonprofit organizations, use Appendix IV; State and Local Governments and Indian Tribes, use Appendix V. For Indirect Cost Proposals all should review, use Appendix VII.

Note: Any non-federal entity that has never received a negotiated indirect cost rate, except for governmental agency or grantee that receives \$35 million or greater, may elect to charge a rate of 10% of modified total direct costs. This rate may be used indefinitely. Once elected, the grantee may use this for all Federal awards until a negotiated rate is applied for and accepted.

Any grantee that has a federally negotiated indirect cost rate may apply for a one-time extension for up to four years. The request is subject to approval of the cognizant agency. At the end of the extension, the grantee may again re-apply to negotiate a new rate.

REQUIRED CERTIFICATIONS

In order to assure that the grantee's expenditures have been submitted in accordance with the terms and conditions of the Federal award, the **primary signatory or designee** must include a certification with the final reports and/or vouchers that states:

“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.” If a designee is the signatory, you must also provide evidence of their authority to sign.

Each cost allocation or indirect (F&A) cost rate must comply with the following:

- Includes the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as designed in the appendices (See Certifications).
- The certificate must be signed by an individual at a level no lower than the vice-president or chief financial officer.
- Unless the grantee has used the elected rate of 10%, HUD may disallow all indirect costs or unilaterally establish a rate if the grantee fails to submit a certified proposal in accordance with the requirements.
 - The plan or rate may be designed based on audited historical data or other data provided by the grantee.
 - The designed rate will be established in a way that ensures that potentially unallowable costs won't be included.
- Certification by the grantee that they did not meet the threshold of \$35 million and are not a major corporation.

SPECIAL CONSIDERATIONS FOR PROPOSALS AND PLANS

Central service costs are common to state and local governments and Indian tribes. Since Federal awards utilize the central services, assigning these costs on a consistent basis through a Central Service Cost Allocation Plan. This is a separate indirect cost rate. Central services include:

- Computer and Information Technology operations.
- Accounting services
- Purchasing & printing services
- Motor Pools

Those individual departments charge a separate internal rate to Federal awards as a direct cost. A Central Services cost allocation plan provides an equitable and consistent basis for those charges. A separate indirect cost rate proposal for each operating agency is usually necessary to claim costs under Federal awards. They may include:

- Indirect costs originating in each department or agency carrying out Federal awards, such as finance, building, treasury, automotive; and
- The costs of central services distributed through a central services indirect cost plan.
- The development and submission of cost allocation plans.
- Interagency services provided within a governmental unit may include allowable direct costs and a share of indirect costs.
- A standard indirect cost allowance equal to ten (10%) percent of the direct salary and wage cost of providing services may be used in lieu of determining the actual indirect costs of the service. This calculation excludes overtime, shift premiums and fringe benefits.

GENERAL PROVISIONS FOR SELECTED ITEMS OF COST

The general provisions provide the principles to be applied when determining whether costs are allowable under Federal awards. These provisions apply whether the cost is treated as direct or indirect. Omission of the cost in this list does not determine its eligibility; determination should be based on treatment of related items of cost. Only those costs deemed allowable in the UAR have been listed here. See the regulations for the full list.

In the event of a discrepancy between the provisions in the UAR and in the Federal award, the Federal award governs:

- **Advertising & Public Relations** – Advertising costs are only allowable for personnel recruitment, procurement of goods or services, disposal of scrap or surplus materials, program outreach. Public Relations costs are only allowable if specifically required by the Federal award, pertaining to specific activities or accomplishments related to performance, public information for notices, environmental etc...
- **Advisory Councils** – Only eligible if authorized by statute or Federal award. Maybe part of an ICAP.
- **Audit Services** – A proportionate share in accordance with the Single Audit Act unless exempted based on the \$750,000 spending threshold.
- **Bonding costs** – When required under the terms of the Federal award; may be eligible as part of ICAP.

- **Collections** – Costs incurred to recover improper payments are allowable ad direct or indirect as appropriate.
- **Compensation – personal services** – Allowed if:
 - Reasonable for the service rendered.
 - Complies with the grantee’s written policies.
 - Fully documented.
- **Compensation – fringe benefits** – Allowed if:
 - Reasonable and required by law.
 - If required by agreement.
 - In the grantee’s written policies.
 - Equitably allocated to all activities (e.g. across all funds).
 - Accrual of fringe costs is consistent across all sources.
 - Payments for unused leave when an employee leaves employment are allowable as indirect costs in the year of payment.
 - Provisions for self-insurance are allowable to the extent that the provisions represent reasonable estimates of the liabilities.
- **Conferences** – Allowable unless restricted by the Federal award.
- **Contingency** – Allowable if explicitly included in budget estimates.
- **Depreciation** – Allowable if made in accordance with ICAP.
- **Employee Health & Welfare** – Allowable under most circumstances.
- **Equipment & Capital Expenditures** – Only allowable with prior written approval.
- **Exchange Rates** – Allowable, but subject to availability of funds.
- **Goods or Services for Personal Use – Housing, maintenance, utilities, furnishings, rent or personal living expense** – Only allowable with approval in advance by the Federal award.
- **Interest** – Allowable if incurred to acquire, construct or replace a capital asset under special conditions.
- **Maintenance and Repair Costs** – Those costs to keep a facility in operating condition are allowable. If costs are incurred to improve, add value or prolong life of facility, they are considered capital expenditures (see equipment above.)
- **Materials and Supplies, including computing devices** – Allowable as direct or indirect.
- **Memberships, Subscriptions and Professional Activity Costs** – If specific to the organization, allowable; social or lobbying organizations are not allowed.
- **Organization Costs** – Costs to establish a legal entity or reorganization are only allowable with prior written approval.
- **Participant Support Costs** – Allowable with prior written approval.

- **Plant and Security Costs** – Necessary and reasonable expenses to secure facilities and personnel are allowable.
- **Pre-award Costs** – Allowable only to the extent that they would have been allowable if incurred after the date of the Federal award; only with prior written approval.
- **Professional Service Costs** - Allowable when reasonable in relation to the services rendered; subject to determining reasonableness:
 - Nature and scope.
 - Necessity of contracting for the service.
 - Past pattern of such costs.
 - Impact on Federal awards.
 - Proportion of Federal vs. non-federal work performed.
 - Employee vs. contractor determination.
 - Qualifications and fees.
 - Adequacy of the contractual agreement.
 - Must be supported by bona-fide services rendered.
- **Proposal Costs** – Allowable as part of ICAP for current period; past period costs may not be charge to the current period.
- **Publication and Printing Costs** – Allowable.
- **Rearrangement and Reconversion Costs** – Alteration of facilities are allowable as indirect costs. Special costs only allowable with prior approval.
- **Recruiting Costs** – Allowable; where relocation costs incurred, if an employee departs within 12 months, the grantee may be required to return the funds to the Federal award.
- **Relocation of Employees** – Allowable provided:
 - The move benefits the employer.
 - Payment is in accordance with written policy.
 - Payment doesn't exceed employee's actual costs.
 - Limited to:
 - Transportation of family and belongings to new location.
 - Transition costs for locating housing.
 - Closing costs incident to disposal of former home.
 - Cost of vacant home ownership of former home.
 - Other necessary and reasonable expenses.
- **Rental Costs of Property and Equipment** – Allowable if reasonable.
- **Specialized Service Facilities** – While not likely under these programs, the costs of services of highly complex programs or specialized facilities, they are allowable, provided the services meet the conditions of:

- They must be charged directly to applicable awards based on usage, a schedule of rates that does not discriminate between Federal and non-federal entities.
- Are designed to recover only the aggregate costs of services. Adjustments must occur biennially and must consider over/under costs for the prior periods.
- **Student Activity Costs** – Unless specifically provided for in the Federal award, costs for student clubs, publications, intramural activities or other student activities are not allowed.
- **Taxes – For States, Local Governments and Indian Tribes:** Those that are regally required are allowable, except self-assessed taxes that disproportionately affect Federal programs:
 - Gasoline taxes and other like taxes or user fees are allowed.
 - This provision does not restrict the authority to identify taxes where Federal participation is inappropriate.
- **For Nonprofit Organizations:** Taxes that are required to be paid or paid to local governments in lieu of taxes are allowable, unless:
 - Exemptions are available, and
 - The awarding agency makes available the necessary exemption certifications.
 - They are for special assessments on land, representing capital improvements.
 - Are for federal income taxes.
- Any refund of taxes must be credited as cost reduction or cash refund.
- Value Added Tax (VAT) Foreign taxes charged for the purchase of goods or services that must be paid are allowable.
- **Termination Costs** – Those costs incurred or the need for special treatment of costs that might not have incurred had the award not been terminated are to be treated as follows:
 - Costs incurred for items usable for the entities non-Federal work would be disallowed unless the entity can submit evidence that it would not retain such items if it meant sustaining a loss.
 - Acceptance of those costs must be limited to the extent that quantities on hand were reasonable and not deemed in excess.
 - If costs cannot be terminated immediately, they may be allowable, unless deemed negligent or willful failure by the non-Federal entity.
 - Loss of useful value of special tooling, machinery and equipment may be allowed:
 - Not going to be used for other work.
 - The interest of the government is to be protected.

- The loss is limited to the portion of the cost which bears the same ratio as the terminated portion is to the whole.
- Rental costs under unexpired leases are general allowable if shown reasonable.
- Settlement expenses are generally allowable:
 - Including accounting, legal, clerical and like.
 - Storage, transportation, protection and disposition.
 - Claims under subawards, in appropriate shares.
- **Training and Education Costs** – are allowable.
- **Transportation Costs** – For freight, postage, cartage, etc...
- **Travel Costs** – Considered the expenses for transportation, lodging, subsistence and related items incurred while on official business.
 - May be charged on an actual cost basis, a per diem or mileage basis or a combination.
 - Must be consistent with those normally allowed in like circumstances.
 - Documentation must clearly justify participation of the individual.
 - Costs must be reasonable.
 - Direct result of the individual's travel for the Federal award.
 - Consistent with the non-Federal entities travel policy.
 - Only during the travel period.

SUBPART F- Audit Requirements – 2 CFR §200.500

This part allows consistent standards and requirements for the audit of non-Federal entities and identifies updated requirements for Federal Awards.

AUDIT REQUIREMENTS

Any non-Federal entity that expends \$750,000 or more in Federal awards during the fiscal year must have a single audit or a program specific audit completed for that year in accordance with the provisions of this part.

- **Single Audit** – It must cover the entire operation or include a series of audits that cover departments, agencies and other organization units that expended or administered Federal awards.
- **Program Specific Audit** – Used when the non-Federal entities expenditures are for one program and the Federal program’s statutes, regulations or terms and conditions do not require a single audit. This excludes Research and Development Programs.
 - Non-Federal entities are exempt when expenditures are less than \$750,000 in the entities’ Fiscal Year unless required by other statute or regulation.
 - If no audit is required, entities must keep records available for review or audit by appropriate Federal officials or others.
 - Subrecipients and Contractors may also subject to audits under this part.
 - Those entities that operate as both subrecipients and contractors may need additional determination regarding payments for goods or services vs. payments of Federal awards.
 - Compliance responsibility for contractors ensures procurement, receipt and payment for goods and services meet terms and conditions set forth.

BASIS FOR DETERMINING FEDERAL AWARDS EXPENDED

The basis for determining the federal award expended should be related to when the activity occurs.

- The activity pertains to events that require compliance with Federal statutes, regulations and terms & conditions of the Federal awards:
 - Expenditure & expense transactions.
 - Cost reimbursements for Indian Tribes.
 - Cooperative agreements and direct appropriations.
 - Disbursements to subrecipients
 - Use of loan proceeds under loan/guarantee programs.
 - Receipt of property, surplus property and program income.
 - Distribution of food commodities.
 - Period when interest is in force.
 - Loan or loan guarantees including:
 - Value of new loans made or received.
 - Balance of loan portfolio where continuing compliance is required.
 - Cumulative balance of Federal awards for endowments funds with federal restrictions.
 - Free rent received as part of a Federal award must be included.

- Value of non-cash assistance.

RELATION TO OTHER AUDIT REQUIREMENTS

An audit conducted in accordance with this Part must be in lieu of any financial audit that is required under any other Federal statute or award. If the audit provides a Federal agency with the information required, it must be accepted by the agency.

In addition to the required audit, the Federal agency, the Office of Inspector General (OIG) and/or the Government Account Office (GAO) may conduct or arrange for additional reviews. The grantee may not constrain from allowing the Federal entity to carry out the audit provided:

- Must not be duplicative of other audits.
- Must build on work performed by other auditors.
- Must be paid for by the Federal agency.
- May request a program audit as a ‘major program’.
 - The request should allow for 180 calendar days prior to the end of the fiscal year to be audited.
 - The auditee should promptly respond whether the program would otherwise be audited as a major program using a risk-based audit approach and/or the additional cost.
 - This request may also apply to a subrecipient audit.

AUDIT FREQUENCY

Audits are required to be performed annually and submitted to the Federal Audit Clearinghouse (FAC) within nine months of the end of the Fiscal Year (FYE). An exception to this is for a state, local government or Indian tribe that is required by constitution or statute in effect on January 1, 1987 to undergo audits less frequently; in this case a bi-annual schedule is allowed. Also allowed an exception is for nonprofit organizations that had biennial audits between FYE July 1, 1992 and January 1, 1995.

PROGRAM SPECIFIC AUDITS

Program specific audit guides are available in the compliance supplement beginning with the 2014 supplement. This will include Federal awarding agency contact information and a Website

where a copy of the guide can be obtained. If the guide is available, the auditor must follow Generally Accepted Government Auditing Standards (GAGAS).

If a program specific audit guide is not available, the audit must include the same requirements as a major program audit. It must include, at a minimum:

- The schedule of expenditures of Federal awards.
- Notes describing the significant accounting policies.
- A summary schedule of prior audit findings and a corrective action plan.
- Audit follow up must include:
 - Performing an audit of financial statements.
 - Obtain understanding and perform tests of internal controls.
 - Perform procedures to determine compliance with Federal statutes, regulations and terms & conditions of the Federal awards.
 - Follow up on prior audit findings to assess the reasonableness of the summary and report as a current year audit finding where the finding hasn't been satisfied.
 - Report on new audit findings.
- The audit report must state that the audit was conducted in accordance with this Part and include:
 - An opinion (or disclaimer) as to “whether the financial statement(s) of the Federal program is presented fairly in all material respects...”
 - A report on internal controls.
 - A report on compliance.
 - A schedule of findings and questioned costs.

The auditee must submit to the Federal Audit Clearinghouse (FAC) the data collection form. Auditees and auditors must ensure that their respective parts are provided to the FAC prior to the deadline.

RESPONSIBILITIES

Grantees must:

- Procure and arrange for the audit and ensure it is properly performed.
- Prepare and provide the appropriate financial statements.
- Respond to findings and prepare corrective action.
- Provide the auditor with access to all records required to perform the audit.

Auditor must:

- Perform the audit in accordance with applicable standards.
- Perform the audit in a timely fashion.
- Not be the same auditor that prepared the Indirect Cost Proposal.
- May be a Federal auditor if they comply fully with the requirements.

FINANCIAL STATEMENTS

The grantee must prepare financial statements that:

- Reflect the agency's financial position.
- Identify changes in operations and/or net assets.
- Identify cash flows for the fiscal year.

The grantee must also provide a schedule of expenditures of Federal awards including the total expended. It may also include information regarding agencies and pass through entities. At a minimum, it must include:

- List of individual Federal programs by Federal agency.
- If a subrecipient, the name of the pass through entity and the identifying (award) number assigned.
- The total Federal award expended and the CFDA number.
- Include the total amount provided to subrecipients from each Federal program.
- Include notes that describe significant accounting policies used when preparing the schedule.

AUDIT FINDINGS FOLLOW-UP

The grantee is responsible for follow-up and corrective action of all audit findings, including prior year audit findings. The grantee must prepare a corrective action plan including the reference numbers assigned by the auditor. It must also include the fiscal year the prior audit finding references.

Where prior year audit findings have been corrected, the summary only needs to include that the corrective action was taken. If only partially corrected, the grantee must explain the reason for

reoccurrence and the additional planned corrective action. If the corrective action is different from the proposed corrective action, this must also be explained.

If the grantee believes the audit finding is not valid or doesn't warrant further action, this must be defended in writing. If a corrective action plan is warranted, the grantee must prepare in a separate document the proposed remedy including:

- The names of the contact persons responsible for providing remedy.
- The corrective action planned.
- Anticipated completion date.
- Or an explanation why the grantee doesn't agree with the findings.

REPORT SUBMISSION

As previously mentioned, the audit must include the Data Collection Form (aka Form SF-SAC) and the reporting package to be forwarded to the FAC (whichever comes first):

- Within 30 days of receipt of the auditor's report or
- Nine months after the end of the audit (fiscal year) period.

Auditors and grantees each have specific parts of the reporting package and must assure that no personally identifiable information is submitted. Unless restricted by Federal statutes or regulations, the grantee must make copies available for public inspection. An exception is Indian tribes: An Indian tribe may opt not to authorize the FAC to make the reporting package publicly available on a website by excluding the authorization in writing.

The reporting package includes:

- The financial statements and schedule of expenditures of Federal awards.
- Summary schedule of prior audit findings.
- Auditor's Report.
- Corrective Action Plan
- Submission to the FAC.
- Requests for management letters issued by the auditor.

HUD'S RESPONSIBILITY

HUD (as a department) may be designated the “Cognizant Agent” or the “Oversight Agent” or neither. HUD has an assigned officer at Headquarters with the primary responsibility as the Cognizant agent; however each Field Office most familiar with a grantee may be assigned the responsibility for the overall audit work. Talk to your CPD Representative if you need more guidance on who to contact in your area.

Any grantee that expends \$50 million or more each year must have a cognizant agent. This is usually determined to be the agency that provides the predominant amount of funding, but for continuity, will have been assigned for a five year period. The agency with the predominant funding in 2009, 2014 and 2019 will assigned and will remain cognizant agency until the next assignment period.

If warranted, the cognizant agent may reassign cognizance to another agency provided that agency agrees to assume responsibility. The cognizant agent must:

- Provide technical assistance and serve as liaison to auditees and auditors if asked.
- Obtain or conduct quality control reviews and provide results to other Federal agencies.
- Provide information to any other affected Federal agencies of any direct reporting.
- Advise the community of independent auditors of any noteworthy or important factual trends.
- Advise the auditor and the auditee of any deficiencies found in audits that require corrective action by the auditor.
- Coordinate audits or reviews of the grantee to ensure that duplication of efforts does not occur.
- Coordinate a management decision where a cross-cutting finding warrants remedy.

An oversight agency will be assigned for an agency that does not have a cognizant agent. This is ‘general’ oversight and may also be reassigned, provided the assigned agency agrees. When HUD is assigned “Oversight,” our office internally determines which division is the Federal Awarding Agency (e.g. Public & Indian Housing and/or Community Planning and Development).

The roles are not unlike those of the cognizant agent, except the determination of the Federal Awarding Agency. The Federal Awarding Agency must also:

- Ensure that audits are complete and submitted on time.
- Provide technical advice.

- Issue management decisions.
- Monitor the recipient to ensure appropriate and timely corrective action.
- Use cooperative audit resolution mechanisms to improve outcomes.
- Develop tracking targets to determine effectiveness of corrective action efforts.

AUDITOR'S RESPONSIBILITIES

As previously mentioned, the scope of the audit must be conducted in accordance with GAGAS. It must cover the entire operations or include a series of audits that cover agencies, departments and other organizational units. The financial statements and schedule of expenditures of Federal awards must be for the same audit period.

The auditor must determine whether the financial statements presented are fair in all material respects in accordance with generally accepted accounting principles (GAAP). They must also determine whether the schedule of expenditures is stated fairly in relation to the financial statements as a whole. The compliance supplement provides guidance on Internal Controls that:

- Are based on industry standards.
- Where the auditor must perform procedures to obtain an understanding of internal controls.
- Plan the testing of internal controls for compliance requirements related to major programs.
- Report any significant deficiencies or material weaknesses related to internal controls.
- Assess the related control risk and consider whether additional testing is warranted.

The auditor must also determine if the grantee has complied with Federal statutes, regulations and terms & conditions of federal awards. More information on this can be found in the compliance supplement. The compliance testing must include tests of transactions and other auditing procedures to provide the auditor sufficient evidence to support an opinion of compliance.

The auditor must also follow-up on prior audit findings, assess the reasonableness of the summary and report on current year audit findings. The auditor must perform audit follow-up procedures regardless if the prior audit finding relates to a major program.

The auditor must also complete and sign specific sections of the Data Collection Form sent to FAC.

THE AUDIT REPORT

The Auditor's report may be combined or separated and may be organized differently from the manner presented in the guidance. It must state that the audit was conducted in accordance with this Part and include:

- An opinion (or disclaimer) as to whether the financial statements are presented fairly in all material respects in accordance with GAAP.
- An opinion (or disclaimer) as to whether the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole.
- A report on internal controls.
- A report on compliance with the Federal statutes, regulations and the terms & conditions of the award.
 - The report must describe the scope of testing of internal controls.
 - May refer to separate schedule of findings and questioned costs.
- A report of compliance for each major program including internal control.
- A schedule of findings and questioned costs, including:
 - A summary of the auditor's results such as:
 - The type of report issued: unmodified opinion, qualified opinion, adverse opinion or disclaimer of opinion.
 - A statement about whether significant deficiencies or material weaknesses were disclosed by the audit.
 - Whether the audit disclosed any noncompliance material to financial statements.
 - Whether the audit disclosed noncompliance material to internal controls.
 - A statement as to whether the audit disclosed any audit findings that the auditor is required to report.
 - Identification of major programs.
 - The dollar threshold between Type A and Type B programs.
 - A statement whether the grantee qualifies as a low-risk auditee.
 - Identification of findings that are required to be reported.
 - Findings and questioned costs.
 - Audit Findings:
 - Internal Controls
 - Compliance
 - Questioned Costs

- Fraud
- Those that related to both the financial statements and the Federal awards.
- Must be reported in a schedule of findings and questioned costs:
 - Significant deficiencies and material weaknesses in internal controls.
 - Significant instances of abuse related to major controls.
 - Material noncompliance with provisions of Federal statutes, regulations and terms & conditions of federal awards.
 - Known questioned costs greater than \$25,000 for a type of compliance with a major program.
 - Known questioned costs greater than \$25,000 for a type of compliance with a non-major program. (Except for audit follow-up, this is not required unless discovered as part of the review, it must be reported.)
 - If the auditor's report on compliance is other than an unmodified opinion, the circumstances must be provided.
 - Known or likely fraud affecting a Federal award, however the auditor is not required to report publicly information which could compromise investigation or legal proceedings.
 - Audit finding detail and clarity must be sufficient for grantee to prepare a corrective action plan.

The grantee must provide the auditor specific information so that it may be included in any audit finding. In turn, the auditor must include the following:

- The name of the specific Federal program and the CFDA number.
- The funding year and any award identification number.
- Whether the funding is pass-through.
- Any specific criteria related to the award.
- The condition found and any support.
- The cause of the condition or any factors responsible for the difference between the existing vs. the desired condition. This may also serve as a basis for corrective action.
- Information that will allow the grantee and Federal agency to determine the cause a use of the deficiency.
- Identification of any questioned costs and how they were computed.

- Information that will allow the Federal agency to determine how prevalent the finding(s) are (e.g. systemic or isolated incident of noncompliance).
- Whether the finding was a repeat of a prior year finding and a recommendation to prevent a repeat occurrence.

The remaining sections of this Part relate to how the auditor determines risk, whether the grantee's program meets the threshold as a 'major' program and how HUD is required to respond.

APPENDICES – SEE THE ACTUAL UAR FOR THE DETAILS

Appendix I is the criteria for a Notice of Funding Opportunity (NOFA) language.

Appendix II follows with contract provisions.

Appendix III is for Institutions of Higher Education (IHE's) and not applicable.

Appendix IV provides additional direction on identifying indirect costs and rate determinations for nonprofit organizations.

Appendix V is for state, local government and Indian Tribe central services cost allocation plans.

Appendix VI is for public assistance cost plans and not applicable.

Appendix VII is more detail for state, local government and Indian tribe indirect cost proposals.

Appendix VIII identifies those nonprofit organizations exempted from Subpart E – no Minnesota organizations listed.

Appendix IX – is for Hospital Costs and not applicable.

Appendix X identifies how to find the Data Collection Form.

Appendix XI identifies how to find the compliance supplement.

GRANTEE RISK AND PROGRAM MONITORING

HUD is required to complete an **annual risk assessment** and **program monitoring** on a regular basis. The risk assessment is designed to determine what the potential is for waste, fraud and abuse of federal funds. Determinations of risk are based on a myriad of categories, such as whether a grantee has subrecipient organizations, how much money is awarded and when the most recent program monitoring has occurred.

HUD reviews whether reports are submitted on time, how often funds are drawn, whether program income has been properly recorded and expended, whether (if applicable) agency/community single audits are submitted within the allowable time frame and if the audit identifies any weaknesses in systems. Another component of risk may be tied to staff experience or agency turnover.

Once the risk assessment has been completed, grantees are ranked with those identified as High Risk being selected for monitoring during that program year

GRANTEE BUDGETING & PROGRAM PLANNING

Formula grants amount are announced prior to an application (Plan) submission. Formula grantees are states, counties and cities/townships meeting the standards for direct allocation. Those types of grants are: Community Development Block Grant (CDBG); HOME Improvement Program (HOME); Emergency Solutions Grants (ESG) and Housing Of Persons With Aids (HOPWA).

Applications and Line Items Budgets are detailed in the grantee's Consolidated (5 year) Plan and Annual Action (1 year update) Plans. Often before the awards have been announced, the program and spending plan has begun, taking into consideration community needs, prior allocations and program income earned. Grantees are required to fine tune that plan and submit it along with their program budget forty-five days before their program start date. In other words, tell HUD what you going to do with the money to meet your goals.

Budget limits may be dictated by program design (e.g. CDBG Administration - 20% or less; Public Services – 15% or less, etc...), but grantees election for activities is open to community design, provided the program meets the regulatory national objectives.

Once that application has been reviewed and approved: along with the required forms and attachments by the HUD Field Office, grantees set about **program operations**. In each community, this looks different:

- Some grantees subcontract all activities.

- Some administer part or the entire award from their Community Development, Planning or Building Departments.
- Some have emphasis on Public Facility Improvements; others priority needs may be Code Enforcement.

What is important for grantees to keep in mind is that all parties involved must know the rules. If the Finance Department is responsible for maintaining the budget, are they aware of the limits in administration? If the subrecipient is responsible for the Housing Rehabilitation Program, are they also responsible for tracking program income? Are they aware of the rules?

If staff from the building/housing division is responsible for inspections, do they have access to job specifications and are they aware of eligible activities? If any of these activities/staff are being paid from federal funds, do they know how to document their time?

Are those who are responsible for operating the programs aware of the budget? How much is available this year for Housing Rehab? How much in Multi-Family Development? Was there any money left over from last year? Is there a specific target area or are we working on 'scattered site'? Have any of our program guidelines or federal rules changed? How does this affect our program?

If the Consolidate Plan/Annual Action Plan is completed, submitted and filed, how can its purpose be fulfilled? The Plan is an attachment to the funding agreements and fully identifies many of the compliance requirements that the community has agreed to fulfill. Use is as your 'cookbook' in order to have all the ingredients available and ready.

The **competitive grants** have evolved over the past three years into what is now called the **Continuum of Care (CoC)**. This came about through the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act.

For each funding year, grantees of all sizes are provided a **Notice of Funding Availability (NOFA)** whereby they work as a regional team with the CoC lead to provide eligible care giving activities around Homelessness. As with the formula grantees, the requirements vary (often annually), the emphasis changes and the program design is submitted in the form of an **application, a budget and a plan**. For competitive awards (formerly known as Shelter Plus Care, Supportive Housing Program and the most recent Recovery Act Program, Homeless Prevention and Rapid Re-Housing Program (HPRP), they are all now under the Continuum of Care (CoC) Program.

The NOFA spells out specific goals and expectations, provides a point system for grading applications and uses a system for awards based on the application submitted, including the

amount of funds available, the grantee performance in previous program years and HUD's priority goals and objectives. In this case the plan goes before the award.

Again, based on the program criteria, grantees develop line item budgets for eligible categories, keeping in mind the thresholds for spending. For each line item, grantees must determine eligible costs (e.g. supportive services vs. operations) and incorporate both Homeless Management Information Systems (HMIS) and administrative costs into the program budgets as spelled out in the HUD approved application.

If the detail in the budget is not transmitted to the program staff, items are mischarged, staff time can be misallocated and budgets are either underspent, returning funds to Treasury or overdrawn, resulting in other problems. This is especially true where consultants whose expertise at grant writing is greater than specific agency programs. Often the miscommunication results in unnecessary HUD findings.