



**DEPARTMENT OF WORKFORCE SERVICES
ISSUANCE NUMBER PY12-05**

Artee Williams, Director

July 26, 2012

TO: All ADWS Employees
Local Workforce Investment Areas and Service Providers

SUBJECT: Allowability of Audit Costs for Subrecipients

1. **Purpose:** To provide Arkansas Department of Workforce Services (ADWS) staff guidance in determining when audit costs of subrecipients are allowable and how to plan audit engagements to assure allowability.
2. **General Information:** The cost principles for Federal awards can be found in OMB Circular A-87. The circular provides that *required* audit costs performed under the Single Audit Act are allowable. What is commonly referred to as “A-133 Audits” or “Single Audits”, are required when an entity expends \$500,000 or more in Federal funding in one year. Many sub-recipients do not expend \$500,000 in Federal funds and will not be *required* to conduct the A-133 Audit.

When an entity expends less than \$500,000 in Federal funds in a fiscal year, only two types of audit costs are allowable:

- 1) Audit costs that are included in a cost allocation plan or indirect cost proposal, or approved by the awarding agency as a direct cost to an award.

Cost allocation plans and indirect cost proposals are agreements between the primary recipients and the awarding agency and do not apply to subrecipients. However, if audit costs are included in an approved grant proposal or otherwise approved by the awarding agency, then they are allowable for the purposes of that award.

- 2) Limited scope audits.

“Limited Scope Audit” defined:

1. An agreed upon procedures engagement
2. In accordance with GAAS or attestation standards
3. Paid for and arranged by the pass through
4. Limited to one or more of the following:
 - a. Allowed/ disallowed activities
 - b. Allowability cost principles,
 - c. Eligibility

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- d. Matching
- e. Level of effort
- f. Earmarking and;
- g. Reporting

See OMB Circular A-133 and 31 U.S.C. §230(b) (2)

ADWS requires that all applicable items of a limited scope audit (see “a” through “f” above) be included in the agreed upon audit engagement.

3. **Action Required:** To assure the allowability of audit costs of subrecipients that expend less than \$500,000 in Federal funding per year, two alternative approaches are available depending on the scope of the audit:
- 1) If the planned or required audit exceeds the definition of a limited scope audit found above, the audit and its scope should be specifically addressed in the grant proposal or otherwise approved by the awarding agency.
 - 2) If the planned or required audit is within the definition of a limited scope audit, then the audit must be arranged and paid for by ADWS.

All attestation engagements should be in accordance with GAAS and attestation standards.

Additional Guidance for Subrecipients-

Subrecipients that expend \$500,000 or more in Federal funds will be required to have an A-133 Audit which is an allowable cost and no additional action is required.

Subrecipients that do not expend \$500,000 in Federal funds should work closely with DWS during the planning stage of their agreement. The determination that a planned audit exceeds the definition of a limited scope audit should be made early enough that DWS can include the information in the grant proposal, which is the most certain way to guarantee that the costs are allowed. If the planned audit falls within the definition of a limited scope audit, then the audit will be arranged and paid for by DWS. This information will be needed to budget for the grant.

- 4. **Inquiries:** Kris Jones (501) 683-5358 or kris.jones@arkansas.gov
- 5. **Attachments:** None
- 6. **Expiration Date:** Continuing