



U.S. Department of
Transportation

Office of the Secretary
of Transportation

ORDER

DOT 4600.15A

2-22-93

Subject: AUDITS OF FEDERAL ASSISTANCE RECIPIENTS

1. PURPOSE. This Order provides departmental guidance for implementing Office of Management and Budget (OMB) Circular A-128, Audit Requirements for State and Local Governments, dated 4-12-85, 49 CFR Part 90, Audits of State and Local Governments, and OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Organizations, dated 3-8-90. It also provides guidance for determining audit coverage for other types of assistance recipients.
2. CANCELLATION. DOT 4600.15, Audits of State and Local Governments, dated 5-16-85.
3. APPLICABILITY. The instructions contained in this Order and the requirements of OMB Circulars A-128 and A-133 are applicable to all Department of Transportation (DOT) operating administrations and secretarial offices that award Federal financial assistance to State and local governments or institutions of higher education and other nonprofit organizations. This Order also applies to the operating administrations and secretarial offices that award Federal assistance to other types of recipients not covered under OMB Circulars A-128 and A-133.
4. REFERENCES. DOT 4600.11A, Principles for Determining Costs Applicable to Grants and Contracts with State and Local Governments, and DOT 4600.14, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Nonprofit Organizations.
5. BACKGROUND. The Single Audit Act of 1984, 31 U.S.C. §§ 7501-7507, established audit requirements for State and local governments that receive Federal financial assistance. The Act also covers public hospitals, colleges, and universities but State and local governments may exclude these entities from single audits provided that audits are conducted in accordance with OMB Circular A-133. OMB Circular A-128 implements the Single Audit Act. OMB Circular A-133 provides audit requirements for institutions of higher education and other nonprofit organizations, and with few exceptions, parallels the requirements of OMB Circular A-128. The provisions of OMB Circular A-128 were effective 4-12-85, and apply to fiscal years of State and local governments

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that begin after 12-31-84. OMB Circular A-133 was effective 3-8-90, and applies to audits of institutions of higher education and other nonprofit institutions for fiscal years that begin on or after 1-1-90. For institutions of higher education and nonprofit organizations, audits of earlier fiscal years may be performed in accordance with Attachment F of OMB Circular A-110, Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations. The requirements for executing and enforcing appropriate audit coverage for recipients not covered under A-128 or A-133 are effective upon the issuance date of this Order.

6. ORDER OF PRECEDENCE. In the event that there are conflicting or otherwise inconsistent policies applicable to audits of Federal assistance awards, the following order of precedence applies:
 - a. Statutes governing the assistance program.
 - b. The Single Audit Act.
 - c. OMB Circulars A-128 and A-133.
 - d. This Order.
 - e. Title 49 CFR Part 90.
 - f. Program regulations.
 - g. Federal award agreement.
7. DEFINITIONS. The definitions contained in OMB Circulars A-128 and A-133 are applicable to this Order.
8. RESPONSIBILITIES. Each operating administration and secretarial office shall require recipients to have audits conducted in compliance with the provisions of OMB Circulars A-128 or A-133, as appropriate. Operating administrations and secretarial offices are also responsible for ensuring appropriate audit coverage for other types of assistance recipients not covered by OMB Circulars A-128 and A-133. OMB will assign cognizant agencies for States and their subdivisions and larger local governments and larger institutions of higher education. Smaller organizations not assigned a cognizant agency will be under the general oversight of the Federal agency that provides them the most funds whether directly or indirectly. Where DOT has been designated to serve as cognizant agency for a recipient, the cognizant agency responsibilities shall be divided between the operating administrations and the Office of Inspector General (OIG) as defined in paragraphs 8b. and 8c. below.

- a. The Office of Acquisition and Grant Management shall be responsible for the following functions:
 - (1) issuing guidance concerning implementation of this Order;
 - (2) reviewing implementing procedures established by operating administrations to ensure compliance with the requirements prescribed in this Order and OMB Circulars A-128 and A-133; and
 - (3) assigning cognizant administrative responsibility in instances when operating administrations that provide funds are unable to make a final determination as to who will carry out this responsibility. This assignment will be made in conjunction with the OIG and the operating administrations involved.

- b. The operating administration assigned cognizant administrative responsibility for a recipient shall be responsible for the following functions:
 - (1) Ensuring that audits are made and reports are distributed in a timely manner and that recipients take prompt corrective action when audit reports are found not in compliance with the requirements of OMB Circulars A-128 and A-133. A copy of all audit reports and corrective action plans shall be submitted to the OIG and other officials who are authorized to receive such reports.
 - (2) Overseeing and coordinating the resolution of cross-cutting findings that affect the programs of more than one operating administration or Federal agency. In the case of city, county, and statewide audits, the cognizant operating administration shall be responsible for tracking and monitoring the resolution of cross-cutting findings that affect more than one Federal agency.
 - (3) Negotiating with recipients to correct system deficiencies and resolve questioned costs for findings that affect more than one operating administration. The cognizant operating administration will seek the views of other affected operating administrations before entering into negotiations, and obtain their specific concurrences prior to final settlement. When mutually agreed upon by the cognizant operating administration and the affected operating administration, specific system deficiencies or questioned costs can be negotiated and resolved by

the affected operating administration. This additional responsibility only applies to the DOT portion of audit findings.

- c. The OIG shall have cognizant audit responsibilities for the following:
- (1) Obtaining or providing quality control reviews of selected audits made by non-Federal audit organizations to ensure that audits are performed in compliance with the requirements of OMB Circulars A-128 or A-133, in conjunction with General Accounting Office's (GAO) Government Auditing Standards issued by the Comptroller General of the United States. When appropriate, results should be provided to other interested organizations.
 - (2) Ensuring that audits are made in accordance with OMB Circulars A-128 and A-133, and advising the recipient of audits that are deficient in meeting requirements. The OIG shall also notify the cognizant operating administration of audits not meeting the requirements of Circulars A-128 or A-133 for followup action.
 - (3) Providing technical advice and liaison to operating administrations, assistance recipients, and independent auditors, as required.
 - (4) Informing other affected Federal organizations and appropriate Federal law enforcement officials of any reported illegal acts or irregularities. In instances where the recipient has not advised State or local law enforcement and prosecuting authorities, the OIG shall assume that responsibility.
 - (5) Coordinating to the extent practicable, audit work performed by or for Federal or non-Federal organizations that are in addition to the audits required by OMB Circulars A-128 and A-133 so that additional audits build upon such audits to achieve the most efficient and cost effective results.
- d. Where cognizant agency assignments have not been made, or are being changed, the appropriate assignments should be made by operating administration and OIG personnel who will be performing the functions. Where agreement cannot be reached on assignments, acceptance of cognizant agency responsibility or assignment of cognizant administrative responsibility will be determined by the Office of Acquisition and Grant Management in conjunction with the OIG and the operating administrations involved. The assignment will be based on an operating administration's

previous experience with a recipient and the amount of dollar support to the recipient. Normally, the operating administration that provides the most funds to a recipient, whether directly or indirectly, should assume cognizant responsibility.

- e. Each operating administration shall establish the necessary agency implementing procedures to ensure compliance with the requirements of OMB Circulars A-128 and A-133 and this Order. Responsibilities delegated to field offices by the operating administrations shall be clearly defined and provide for administrative tracking mechanisms to ensure that field offices carry out responsibilities in an appropriate manner. Operating administrations shall forward a copy of their implementing procedures and instructions to the Office of Acquisition and Grant Management.
 - f. Operating administrations and secretarial offices that award Federal financial assistance are responsible for providing instructions to recipients to ensure that they perform responsibilities in accordance with the requirements of OMB Circulars A-128 and A-133 as appropriate.
 - g. Operating administrations shall establish and maintain tracking mechanisms for recording receipt of audit reports and monitor the status of corrective actions. Recipients shall be instructed to submit an appropriate number of copies of all audit reports directly to appropriate Federal program officials. Recipients shall also be instructed to submit three copies of single audit reports to the appropriate OIG Regional Office.
9. SANCTIONS. Where audit requirements are not in the operating administrations' regulations, as a minimum, each assistance agreement shall contain the following or a similar certification: "Audit arrangements have been made within the prescribed audit reporting cycle. Failure to furnish an acceptable audit as determined by the cognizant Federal agency may be a basis for limiting the recipient to payment by reimbursement on a cash basis, withholding or disallowing overhead costs or suspending the Federal assistance agreement until a proper audit is made." When practicable, an annual certification from a recipient can be used in lieu of a certification on each assistance agreement.
10. ADDITIONAL AUDITS. When operating administrations and OIG determine that additional audits are necessary, such audits shall build on the results of independent auditors if the audits meet the criteria established by OMB Circulars A-128 or A-133.

- a. Recipients that receive awards of less than \$25,000 a year in Federal assistance funds are exempt from the audit requirements of OMB Circulars A-128 and A-133. However, recipients must maintain appropriate records to document their compliance with the requirements of a Federal assistance award.
 - b. Recipients covered by OMB Circulars A-128 or A-133 that receive \$25,000 or more but less than \$100,000 in Federal assistance and do not obtain audits in accordance with the requirements of OMB Circulars A-128 or A-133 shall follow procedures prescribed by operating administrations and shall ensure that Federal funds were spent in accordance with applicable laws and regulations governing the program in which they participate. Techniques to determine recipients compliance with Federal requirements are prescribed in subparagraphs (1) through (5) below.
 - (1) Recipient obtained audits made in accordance with the guidelines listed in the GAO booklet entitled "Standards for Audits of Governmental Programs, Activities, and Functions."
 - (2) Previous audits of recipient operations.
 - (3) Desk reviews by Federal program officials of project documentation.
 - (4) Audits by Federal or non-Federal auditors obtained by recipients.
 - (5) Evaluations of recipient operations by Federal program officials.
 - c. If the awarding operating administration determines that additional audit work needs to be performed, the operating administrations shall contact the OIG to determine appropriate action. The OIG will provide or arrange for additional audit coverage if deemed necessary.
11. COMPLIANCE. OMB has prepared compliance supplements for audits of major programs covered by OMB Circulars A-128 and A-133. Proposed changes to the compliance supplement shall be submitted to the Office of Acquisition and Grant Management, which will coordinate the proposed revision with the OIG and forward it to OMB as appropriate.
 12. OTHER RECIPIENTS. Operating administrations and secretarial offices are responsible for establishing and enforcing appropriate audit coverage for recipients not covered under OMB Circulars A-128 and A-133. Audit requirements for those

recipients shall be established and performed for the program in a manner that ensures the Federal interest is adequately protected. Examples of effective measures to secure those Federal objectives are illustrated in paragraphs 10b(1) through (5) of this Order. Audits for recipients not covered in OMB Circulars A-128 and A-133 shall be conducted in accordance with government and generally accepted audit standards.

13. NEGOTIATION OF INDIRECT COST RATES. Except for statewide plans, operating administrations assigned cognizant administrative responsibility under this Order are also responsible for the negotiation of recipient indirect cost rate proposals/cost allocation plans with respect to assistance programs as defined in DOT 4600.11A, Principles for Determining Costs Applicable to Grants and Contracts with State and Local Governments, and DOT 4600.14, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Nonprofit Organizations.
14. IMPLEMENTATION. Where appropriate, secretarial offices and operating administrations shall develop additional guidance required to implement this Order and provide a copy of that guidance to the Office of Acquisition and Grant Management within 6 months of the date of this Order.

FOR THE SECRETARY OF TRANSPORTATION:



Melissa J. Allen
For the Assistant Secretary
for Administration