

U.S. Department of Energy

Audits of For-Profit Recipients FAQ (Updated 12/31/2010)

The U.S. Department of Energy (“DOE”) is providing the following information to assist for-profit recipients of DOE awards in complying with the audit requirements of 10 CFR 600.316. Additional guidance, including the detailed compliance requirements and suggested audit procedures, will be forthcoming from DOE.

1. Q: Are for-profit entities that receive federal awards from DOE required to have compliance audits? Are sub-awardees required to have compliance audits?

A: Yes. Under Regulation 10 CFR 600.316, a for-profit entity is required to have a compliance audit for any fiscal year it expends \$500,000 or more in financial assistance awards¹ provided by any component of the U.S. Department of Energy. This requirement also applies to sub-awardees that receive DOE funds through a pass-through entity.

2. Q: How is the \$500,000 threshold interpreted? Is the \$500,000 interpreted as expended for each energy award individually or is it measured against all energy awards in the aggregate?

A: The \$500,000 threshold applies to federal DOE awards in the aggregate, including those awards received through pass-through entities. Any for-profit entity that expends, in aggregate, \$500,000 or more in DOE funds during its fiscal year is subject to the compliance audit requirement, even if no individual award amounts to \$500,000 or more.

3. Q: Are recipients and sub-awardees required to submit their financial statements as a part of the compliance audit? Must the audit of the financial statements be completed in accordance with Generally Accepted Government Auditing Standards (“GAGAS”)?

A: For-profit recipients are required to submit audited financial statements to DOE as a part of the compliance audit. Sub-awardees that receive DOE funds through a pass-through entity are required to submit audited financial statements to the pass-through entity. See question 5 for further information.

The compliance audit generally should be coordinated with the recipient’s existing financial statement audit. Auditors do not need to conduct the financial statement audit in accordance with GAGAS, but should instead conduct the financial statement audit in compliance with either Generally Accepted Auditing Standards (“GAAS”) or standards put in place by the Public Company Accounting Oversight Board (“PCAOB”). However, auditors must conduct the compliance audit in accordance with GAAS and GAGAS. If the recipient is a subsidiary for which separate financial statements are not available, the recipient may submit the financial statements of the consolidated group.

¹ For this purpose, federal financial assistance is defined as the transfer of money or property to a recipient or subrecipient to accomplish a public purpose of support or stimulation authorized by Federal statute. For purposes of Regulation 10 CFR 600, financial assistance instruments are grants, cooperative agreements, and subawards of those grants and cooperative agreements. Loans and loan guarantees shall not be considered financial assistance instruments. Contracts or agreements with DOE labs also shall not be considered financial assistance instruments.

4. Q: What are the general requirements of the compliance audits?

A: Recipients and sub-awardees that have one or more awards² with expenditures of \$500,000 or more are required to have a compliance audit for each of these awards. There is no audit requirement for any remaining awards with expenditures less than \$500,000.

Recipients and sub-awardees that have total expenditures of \$500,000 or more but that do not have any single award² with expenditures of \$500,000 or more are required to have a compliance audit of the awards in the aggregate (similar to a cluster in an audit in accordance with OMB Circular A-133).³

The compliance audits and related reporting will generally follow the requirements for a program specific audit as set forth in Chapter 14 of the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits*. The compliance requirements subject to testing are expected to be similar to those mandated for non-profit recipients under the OMB Circular A-133 *Compliance Supplement* (Part 3) and include the following: activities allowed or unallowed, allowable costs/cost principles, cash management, Davis Bacon Act, eligibility, equipment and real property management, matching/level of effort/earmarking, period of availability of federal funds, procurement/suspension/debarment, program income, real property acquisition/relocation assistance, reporting, subrecipient monitoring, National Environmental Policy Act (NEPA), National Historic Preservation Act (NHPA), and special tests and provisions.

5. Q: What is the effective date of these compliance audit requirements and when are related submissions due? How are the recipients' audits submitted to the Department of Energy?

A: The compliance audit requirements are effective for entities' 2010 fiscal years (i.e., for any fiscal year ending in 2010). For recipients, financial statement and compliance audit submissions are due to DOE within six months of the recipients' fiscal year-end dates. For sub-awardees, financial statement and compliance audit submissions are due to the pass-through entity within six months of the sub-awardees' fiscal year-end dates. For the initial implementation of this guidance, submissions are due no later than June 30, 2011.

For recipients, the compliance audits must be submitted, along with audited financial statements, to the appropriate DOE Contracting Officer as well as to the DOE Office of the Chief Financial Officer. More specific information on the submission of compliance audits to the Department of Energy will be forthcoming.

² When multiple awards are made to a recipient or subrecipient for projects under the same CFDA number, the term "award" shall refer to the awards in aggregate, and the audit of the awards shall be conducted at the aggregate CFDA level.

³ OMB Circular A-133 defines a cluster of programs as a "grouping of closely related programs that share common compliance requirements."