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May 7, 2002

COMPTROLLER'S MEMORANDUM NO. 2002-18

TO: Heads of Departments and Agencies

SUBJECT: Funding of Audits Required Under Single Audit Act Amendments of 1996

This memorandum supersedes Special Distribution Memorandum No. 1994-15, dated November 7, 1994, regarding the funding of the audits mandated by the Single Audit Act of 1984 (Public Law 98-502) and the Single Audit Act Amendments of 1996 (Public Law 104-156).

Recipients of federal assistance funds are responsible to recover the cost of the federally-mandated audits that are conducted of their departments/agencies to the extent allowed by Office of Management and Budget (OMB) Circular No. A-87 and OMB Circular No. A-133.

The audit costs may be recovered by the direct cost method or through the recovery of indirect costs. Recipients should use the methodology that maximizes the State's recovery of audit costs taking into consideration the potential impact on their federal program funding. Recipients that elect to use the direct cost method must institute internal accounting controls to ensure that audit costs are excluded from the computation of the indirect cost rate that is negotiated with their federal cognizant agency for the recovery of indirect costs incurred on federal assistance programs.

Any questions on the above should be directed to James T. Yamamura, Audit Division, at 586-0360.

Glenn M Okimoto

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State Comptroller

MAY 10 2002