**Federal Awards Compliance Audit Guidance and Testing**

|  |  |
| --- | --- |
| **NAME OF CLIENT:** |  |
| **YEAR ENDED:** | 2022 |

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Home Investment Partnerships Program |
| **AL#:** | 14.239 |

**This File has been broken into following sections:**

* Discussion on Agency Adoption of the UG and example citations
* Introduction- Materiality Sheet – See the table of contents
* Part I- General OMB Compliance Supplement Information,
* Part II- Pass Through Agency Program Specific Introductory Information,
* Part III- Applicable Compliance Requirement Guidance
  + OMB compliance requirements
  + Pass through agency/grant agreement compliance requirements
  + Audit Objectives and Control Testing Procedures
  + Suggested Audit Procedures- Compliance/Substantive Tests
  + Audit Implications Summary
* Program Testing Conclusion

# Important Information (please read)

**This FACCR has been tailored for local governments and Not-For–Profits. It does not include all required references and testing for Institutes of Higher Learning or State organizations.**

**Note:**

* **Per** [**OCD Policy Notice 15.01**](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1tH/1b5DRUg_tUtpMMlOG_.B4Zl.8In7Z2En7ixkjhhcntM)**, OCD (Office of Community Development), ODOD (Ohio Department of Development) does not permit subgranting of funds or subrecipient agreements with other local governments or agencies. Please contact CFAE if you have a client that appears to have subgranted the funds down to another local government or agency.**

**If your program had COVID funding expenditures, please refer to the terms and conditions of the grant to determine if any additional requirements were imposed. If additional material requirements are identified, auditors will need to create procedures to test those requirements. If you have questions, AOS Auditors please open a Spiceworks ticket for assistance (IPAs email** [**AOSFederal@ohioauditor.gov**](mailto:AOSFederal@ohioauditor.gov)**).**

**Also see guidance in** [**Appendix VII**](OMB_Appendix%20VII.pdf) **of the Compliance Supplement.**

**NAVIGATION PANE**

**This file has been arranged to be navigable. Click on the view tab above and check the box that says “Navigation Pane” to bring up the headings. Click on the various sections within the navigation pane to go directly to that section.**

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# AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS

Federal awarding agencies adopted or implemented the Uniform Guidance in 2 CFR Part 200. The OMB guidance is directed to Federal agencies and, by itself, does not establish regulatory requirements binding on non-federal entities. The Federal awarding agency implementation gives regulatory effect to 2 CFR Part 200 for that agency’s Federal awards and, thereby, establishes requirements with which the non-Federal entity must comply when incorporated in the terms and conditions of the federal award. The code sections where ED, HHS, USDA, DOT, EPA, DOL and HUD have adopted the Uniform Guidance in 2 CFR Part 200 are located in the hyperlinked document below. For the complete list of agencies adopting 2 CFR Part 200, as of the date of the OMB Compliance Supplement, see [**Appendix II**](OMB_Appendix%20II.pdf)**.**

In implementing the UG, agencies were able to make certain changes to 2 CFR Part 200 by requesting needed exceptions. A few adopted the UG with no changes; however, most agencies did make changes to the UG by either adding specific requirements or editing/modifying the existing language within certain sections of the UG. OMB does not maintain a complete listing of approved agency exceptions to the UG. Auditors should review the OMB Compliance Supplement and, as necessary, agency regulations adopting/implementing the OMB uniform guidance in 2 CFR Part 200 to determine if there is any exception related to the compliance requirements that apply to the program (see link below)

**Auditors should review this** [**link**](Agency%20Adoption%20of%20the%20UG%20and%20Example%20Citations.pdf) **for a full discussion of agency adoption of the UG and how to cite non-compliance exception.**

*(Source: AOS CFAE)*

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# Introduction: Materiality by Compliance Requirement Matrix

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Planning Federal Materiality by Compliance Requirement**  See Footnotes 1-6 below the matrix table for further explanation, in particular, review note 6 which discusses tailoring the matrix assessments. | | | | | | | | | | | |
|  |  |  | **(1)** | **(2)** | **(6)** | **(6)** | **(3)** | **(4)** | **(5)** | **(5)** | **(6)** |
| **Compliance Requirement** | | | **Applicable per Compl.**  **Suppl.** | **Direct & material to program / entity** | **Monetary or nonmonetary** | **If monetary, population subject to require.** | **Inherent risk (IR) assess.** | **Final control risk (CR) assess.** | **Detection risk of noncompl.** | **Overall audit risk of noncompl.** | **Federal materiality by compl. requirement** |
|
|
|
| *(Yes or No)* | *(Yes or No)* | *(M/N)* | *(Dollars)* | *(High/Low)* | *(High/Low)* | *(High/Low)* | *(High/Low)* | *typically 5% of population subject to requirement* |
| **A** |  | **Activities Allowed or Unallowed** | Yes |  | M |  |  |  |  |  | *5%* |
| **B** |  | **Allowable Costs/Cost Principles** | Yes |  | M |  |  |  |  |  | *5%* |
| **C** |  | **Cash Management** | No |  |  |  |  |  |  |  |  |
| **D** |  | ***RESERVED*** |  |  |  |  |  |  |  |  |  |
| **E** |  | **Eligibility** | Yes |  | M/N |  |  |  |  |  | *5%* |
| **F** |  | **Equipment & Real Property Mgmt** | No |  |  |  |  |  |  |  |  |
| **G** |  | **Matching, Level of Effort, Earmark** | No |  |  |  |  |  |  |  |  |
| **H** |  | **Period of Performance** | No |  |  |  |  |  |  |  |  |
| **I** |  | **Procurement & Sus. & Debarment** | No |  |  |  |  |  |  |  |  |
| **J** |  | **Program Income** | Yes |  | M |  |  |  |  |  | *5%* |
| **K** |  | ***RESERVED*** |  |  |  |  |  |  |  |  |  |
| **L** |  | **Reporting** | No |  |  |  |  |  |  |  |  |
| **M** |  | **Subrecipient Monitoring** | Yes **£** |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions – Wage Rate Requirements** | Yes |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions – Maximum Per-Unit Subsidy** | Yes |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions – Underwriting Requirements** | Yes |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions –HOME-ARP** | Yes |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions – Drawdowns of HOME/HOME-ARP Funds** | Yes |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions – Housing Quality Standards** | Yes |  | N |  |  |  |  |  | *5%* |

**£: This is applicable per the OMB Compliance Supplement, however, we do not expect it to be applicable to local entities, as per** [**OCD Policy Notice OCD 15-01**](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1tH/1b5DRUg_tUtpMMlOG_.B4Zl.8In7Z2En7ixkjhhcntM)**, OCD ODSA does not permit subgranting of funds or subrecipient agreements with other local governments or agencies.**

**NOTE: For all compliance requirements marked as applicable in Column (1) you MUST document in your working papers or this FACCR why a requirement is not direct and material to your program/entity as marked in Column (2). When making that determination all parts of that compliance requirement have to be considered. For example, Equipment and Real Property contains procedures regarding Acquisitions, Dispositions, and Inventory Management. The documentation on why the compliance requirement is not be applicable to the program/entity must cover all parts of that compliance requirement.**

**(1)** Taken form Part 2, Matrix of Compliance Requirements, of the [OMB Compliance Supplement](https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf). When Part 2 of the Compliance Supplement indicates that a type of compliance requirement is not applicable, the remaining assessments for the compliance requirement are not applicable.

**(2)** If the Supplement notes a compliance requirement as being applicable to the program in column (1), it still may not apply at a particular entity either because that entity does not have activity subject to that type of compliance requirement, or the activity could not have a material effect on a major program. If the Compliance Supplement indicates that a type of compliance requirement is applicable and the auditor determines it also is direct and material to the program at the specific entity being audited, the auditor should answer this question “Yes,” and then complete the remainder of the line to document the various risk assessments, sample sizes, and references to testing. Alternatively, if the auditor determines that a particular type of compliance requirement that normally would be applicable to a program (as per part 2 of the Compliance Supplement) is not direct and material to the program at the specific entity being audited, the auditor should answer this question “No.” Along with that response, the auditor should document the basis for the determination (for example, "per the Compliance Supplement, eligibility requirements only apply at the state level").

**(3)** Refer to the AICPA Single Audit Guide, chapter 10, Compliance Auditing Applicable to Major Programs, for considerations relating to assessing inherent risk of noncompliance for each direct and material type of compliance requirement. The auditor is expected to document the inherent risk assessment for each direct and material compliance requirement.

**(4)** Refer to the AICPA Single Audit Guide, chapter 9, Consideration of Internal Control over Compliance for Major Programs, for considerations relating to assessing control risk of noncompliance for each direct and material type of compliance requirement. To determine the control risk assessment, the auditor is to document the five internal control components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (that is, control environment, risk assessment, control activities, information and communication, and monitoring) for each direct and material type of compliance requirement. Keep in mind that the auditor is expected to perform procedures to obtain an understanding of internal control over compliance for federal programs that is sufficient to plan the audit to support a low assessed level of control risk. If internal control over compliance for a type of compliance requirement is likely to be ineffective in preventing or detecting noncompliance, then the auditor is not required to plan and perform tests of internal control over compliance. Rather, the auditor must assess control risk at maximum, determine whether additional compliance tests are required, and report a significant deficiency (or material weakness) as part of the audit findings. The control risk assessment is based upon the auditor's understanding of controls, which would be documented outside of this template. Auditors may use the practice aid, Controls Overview Document, to support their control assessment. The Controls Overview Document assists the auditor in documenting the elements of COSO, identifying key controls, testing of those controls, and concluding on control risk. The practice aid is available in either a checklist or narrative format.

**(5)** Audit risk of noncompliance is defined in AICPA, Professional Standards, vol. 1, AU-C 935, as the risk that the auditor expresses an inappropriate opinion on the entity's compliance when material noncompliance exists. Audit risk of noncompliance is a function of the risks of material noncompliance and detection risk of noncompliance. A “Low” assessment of Detection Risk in this matrix means that the risk has been reduced to an acceptable level.

**(6)** CFAE included the typical monetary vs. nonmonetary determinations for each compliance requirement in this program. However, auditors should tailor these assessments as appropriate based on the facts and circumstances of their entity’s operations. The AICPA Single Audit Guide 10.55 states the auditor's tests of compliance with compliance requirements may disclose instances of noncompliance. The Uniform Guidance refers to these instances of noncompliance, among other matters, as “audit findings.” Such findings may be of a monetary nature and involve questioned costs or may be nonmonetary and not result in questioned costs. AU-C 935.13 & .A7 require auditors to establish and document two materiality levels: (1) a materiality level for the program as a whole. The column above documents quantitative materiality at the COMPLIANCE REQUIREMENT LEVEL for each major program; and (2) a second materiality level for the each of the applicable 12 compliance requirement listed in Appendix XI to Part 200.

*Note:*

a. If the compliance requirement is of a monetary nature, and

b. The requirement applies to the ***total*** population of program expenditure,

Then the compliance materiality amount for the program also equals materiality for the requirement. For example, the population for allowable costs and cost principles will usually equal the total Federal expenditures for the major program as a whole. Conversely, the population for some monetary compliance requirements may be less than the total Federal expenditures. Auditors must carefully determine the population subject to the compliance requirement to properly assess Federal materiality. Auditors should also consider the qualitative aspects of materiality. For example, in some cases, noncompliance and internal control deficiencies that might otherwise be immaterial could be significant to the major program because they involve fraud, abuse, or illegal acts. Auditors should document PROGRAM LEVEL materiality in the Record of Single Audit Risk (RSAR).

*(Source: AOS CFAE)*

***Performing Tests to Evaluate the Effectiveness of Controls throughout this FACCR***

Auditors should consider the following when evaluating, documenting, and testing the effectiveness of controls throughout this FACCR:

As noted in paragraph 9.08, the Uniform Guidance provides that the auditors must perform tests of internal controls over compliance as planned. (Paragraphs 9.40-9.42 of the *AICPA Single Audit Guide* discuss an exception related to ineffective internal control over compliance.) In addition, AU-C 330.08 states the auditor should design and perform tests of controls to obtain sufficient appropriate audit evidence about the operating effectiveness of relevant controls. Further, AU-C 330.09 states in designing and performing tests of controls, the auditor should obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

Testing of the operating effectiveness of controls ordinarily includes procedures such as (a) inquiries of appropriate entity personnel, including grant and contract managers; (b) the inspection of documents, reports, or electronic files indicating performance of the control; (c) the observation of the application of the specific controls; and (d) reperformance of the application of the control by the auditor. The auditor should perform such procedures regardless of whether he or she would otherwise choose to obtain evidence to support an assessment of control risk below the maximum level.

Paragraph .A24 of AU-C section 330 provides guidance related to the testing of controls. When responding to the risk assessment, the auditor may design a test of controls to be performed concurrently with a test of details on the same transactions. Although the purpose of a test of controls is different from the purpose of a test of details, both may be accomplished concurrently by performing a test of controls and a test of details on the same transaction (a dual-purpose test). For example, the auditor may examine an invoice to determine whether it has been approved and whether it provides substantive evidence of a transaction. A dual purpose test is designed and evaluated by considering each purpose of the test separately.

Also, when performing the tests, the auditor should consider how the outcome of the test of controls may affect the auditor's determination about the extent of substantive procedures to be performed. See chapter 11 of the AICPA Single Audit Guide for a discussion of the use of dual purpose samples in a compliance audit.

*(Source: Paragraphs 9.08 and 9.40 through 9.42 of the AICPA Single Audit Guide and AU-C 330.)*

[Part 6](OMB_Part%206.pdf) of the 2022 OMB Compliance Supplement provides detailed guidance on assessing internal controls over the compliance requirements.

*(Source: 2022 OMB Compliance Supplement)*

**Improper Payments**

Under OMB guidance, Public Law (Pub. L.) No. 107-300, the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204, the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments, and the June 18, 2010 Presidential memorandum to enhance payment accuracy, federal agencies are required to take actions to prevent improper payments, review federal awards for such payments, and, as applicable, reclaim improper payments. Improper payments include the following:

1. Any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement; and includes -- (i) any payment to an ineligible recipient;(ii) any payment for an ineligible good or service; (iii) any duplicate payment; (iv) any payment for a good or service not received, except for those payments where authorized by law; and (v) any payment that does not account for credit for applicable discounts.
2. A payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

Auditors must be alert to improper payments, particularly when testing the following parts of section III. – A, “Activities Allowed or Unallowed;” B, “Allowable Costs/Cost Principles;” E, “Eligibility;” and, in some cases, N, “Special Tests and Provisions.”

*(Source: 2022 OMB Compliance Supplement Part 3)*

# Part I – OMB Compliance Supplement Information

### I. Program Objectives

The objectives of the HOME Investment Partnerships (HOME) program include (1) expanding the supply of decent and affordable housing, particularly housing for low- and very low-income Americans; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing (24 CFR section 92.1).

**HOME-American Rescue Plan (HOME-ARP)**

The American Rescue Plan Act of 2021 provided an additional $5 billion of which $4.925 billion was allocated using the HOME formula to meet the needs of those homeless or at risk of homelessness, the development of affordable housing, tenant based rental assistance, supportive services, and acquisition and development of non-congregate shelter units. Unlike HOME, these funds are not available for homebuyer or existing homeowner assistance activities. Also, up to 15 percent of each grant may be used for administrative purposes as opposed to HOME, which is up to 10 percent of each grant.

The HOME-ARP funds are available for certain qualifying populations (QPs) (as defined in Notice CPD-21-10: Requirements for the Use of Funds in the HOME-ARP Program):

1. Homeless (as defined in the McKinney Act definition at 24 CFR 91.5).

2. At-risk of homelessness (McKinney Act definition at 24 CFR 9.1.5).

3. Fleeing/Attempting to Flee Domestic Violence, Dating Violence, Sexual Assault, Stalking or Human Trafficking (definitions from VAWA regulations at 24 CFR 5.2003, except Human Trafficking definition from Trafficking Victims Protection Act of 2000).

4. Other Populations where assistance would: Prevent the family’s homelessness or serve those with the greatest risk of housing instability.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### II. Program Procedures

The HOME and HOME-ARP programs are conducted by jurisdictions (states, cities, urban counties, and consortia) that receive an allocation of funds. Participating jurisdictions (PJs) must submit a description of how they propose to use the funds for housing activities, together with certifications (24 CFR Part 91). The funding amount is based on a formula of six factors established to reflect a jurisdiction’s need for an increased supply of affordable housing for low- and very low-income families (24 CFR section 92.50).

A state may carry out its own HOME/HOME-ARP program without active participation of units of general local government or may distribute HOME/HOME-ARP funds to units of general local government to carry out HOME/HOME-ARP programs in which both the state and all or some of the units of general local government perform specified functions. A unit of general local government designated by a state to receive HOME/HOME-ARP funds from a state is a “state recipient.” A “subrecipient” is a public agency or nonprofit organization selected by the participating jurisdiction to administer all or some of the participating jurisdiction’s HOME/HOME-ARP programs. Before disbursing funds to an entity, each participating jurisdiction is required to enter into a written agreement with the entity. The contents of the agreement may vary depending on the role the entity assumes, or the type of project undertaken (e.g., state recipient, subrecipient, for-profit or nonprofit housing owner, developer, or sponsor, a contractor, or a home buyer, homeowner, or tenant receiving tenant-based rental or security deposit assistance) (24 CFR section 92.504).

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### III. Source of Governing Requirements

The HOME program was established by the Title II of the Cranston-Gonzalez National Affordable Housing Act (NAHA) (42 USC 12701–12840 and 3535(d)). Implementing regulations are codified at 24 CFR Part 92.

HOME-ARP was established in section 3205 of the American Rescue Plan Act of 2021 (Pub .L. No. 117-2). Notice CPD-21-10: Requirements for the Use of Funds in the HOME-ARP Program ([HOME-ARP Implementing Notice)](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf) was published September 13, 2021. The Notice established requirements for HOME-ARP funds.

The American Rescue Plan (ARP) provides funds for homelessness and supportive services assistance under the HOME statute of Title II of NAHA (42 USC 12721 et seq.) and authorizes the Secretary of HUD to waive or specify alternative requirements for any provision of NAHA or regulation for the administration of the HOME-ARP program, except requirements related to fair housing, civil rights, nondiscrimination, labor standards, and the environment, upon a finding that the waiver or alternative requirement is necessary to expedite or facilitate the use of HOME-ARP funds. Pursuant to the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf), the per-unit cost limits (42 USC 12742(e), commitment requirements (42 USC 12748(g)), matching requirements (42 USC 12750), and set-aside for housing developed, sponsored, or owned by community housing development organizations (CHDOs) (42 USC 12771) in NAHA do not apply to HOME-ARP funds.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### IV. Other Information

On April 10, 2020, the Office of Community Planning and Development (CPD) issued two memoranda containing statutory suspensions and regulatory waivers for the HOME Program to provide flexibility for jurisdictions to address the COVID-19 pandemic. The participating jurisdictions must request these suspension/and or waivers in order to implement them. All participating jurisdictions are subject to the compliance requirements listed in Section III. The participating jurisdictions implementing the COVID-19 suspensions and waivers must adhere to the revised application of the requirements set forth in the waivers: [https://www.hudexchange.info/programs/](http://www.hudexchange.info/programs/home/covid-19/#regulatory-resources)home/co[vid-19/#regulatory-r](http://www.hudexchange.info/programs/home/covid-19/#regulatory-resources)e[sources .](http://www.hudexchange.info/programs/home/covid-19/#regulatory-resources)

An extension to the original COVID-19 suspensions and waivers, along with additional information is provided in the following document: <http://www.hud.gov/sites/dfiles/CPD/documents/HOME-General-Susp-and-Waivers-Revisions-Final.pdf> .

Pertinent information that will assist the auditor in understanding the HOME program is available on the agency website at [https://www.hudexchange.info/home/](http://www.hudexchange.info/home/) .

Information regarding the American Rescue Plan requirements for HOME-ARP Program: <https://www.hudexchange.info/resource/6479/notice-cpd-2110-requirements-for-the-use-of-funds-in-the-home-arp-program/> and [https://www.hudexchange.info/resource/6480/ho](http://www.hudexchange.info/resource/6480/home-arp-implementation-notice-fact-sheets/)me[-arp-implementation-notice-fa](http://www.hudexchange.info/resource/6480/home-arp-implementation-notice-fact-sheets/)ct-she[ets/ .](http://www.hudexchange.info/resource/6480/home-arp-implementation-notice-fact-sheets/)

***Improper Payments***

A participating jurisdiction that uses any HOME funds for an activity that does not meet HOME affordability requirements outlined in 24 CFR section 92.252 or 24 CFR section 92.254, or for costs that are not eligible costs identified in 24 CFR sections 92.206 through 92.209, must repay the funds to either its HOME Investment Trust Fund Treasury account or the local HOME account (24 CFR section 92.503(b)).

Regarding HOME-ARP funds: If funds are invested in HOME-ARP rental housing and NCS that does not meet the requirements in the Notice, these funds must be repaid to the participating jurisdiction’s HOME-ARP Investment Trust Fund Treasury account (Treasury account). HOME- ARP funds **may not** be repaid to the participating jurisdiction’s local account.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

# Part II – Pass through Agency and Grant Specific Information

### Program Overview and Testing Considerations

Participating jurisdictions (such as counties) receiving funds directly from HUD have a consolidated plan that is approved by HUD or that the application for HUD funds contain a certification that the application is consistent with a HUD-approved consolidated plan.

The consolidated plan serves the following functions:

1) a planning document for the jurisdiction, which builds on a participatory process among citizens, organizations, businesses, and other stakeholders;

2) a submission for federal funds under HUD’s formula grant programs for jurisdictions;

3) a strategy to be followed in carrying out HUD programs; and

4) a management tool for assessing performance and tracking results

*(Source:* [*24 CFR Section 91.1(b)*](https://www.ecfr.gov/current/title-24/subtitle-A/part-91/subpart-A/section-91.1)*)*

Consolidated program year.

1. Each of the following programs shall be administered by a jurisdiction on a single consolidated program year, established by the jurisdiction: CDBG, ESG, HOME, HOPWA, and HTF. Except as provided in paragraph (b) of this section, the program year shall run for a twelve month period and begin on the first calendar day of a month.
2. Once a program year is established, the jurisdiction may either shorten or lengthen its program year to change the beginning date of the following program year, provided that it notifies HUD in writing at least two months before the date the program year would have ended if it had not been lengthened or at least two months before the end of a proposed shortened program year.

*(Source:* [*24 CFR 91.10(a)&(b)*](https://www.ecfr.gov/current/title-24/subtitle-A/part-91/subpart-A/section-91.10)*)*

In order to facilitate continuity in its program and to provide accountability to citizens, each jurisdiction should submit its consolidated plan to HUD at least 45 days before the start of its program year. The summary of the citizen participation and consultation process, the action plan and the certifications must be submitted on an annual basis.

*(Source:* [*24 CFR 91.15(a)(1)&(b)(1)*](https://www.ecfr.gov/current/title-24/subtitle-A/part-91/subpart-A/section-91.15)*)*

When preparing the consolidated plan, the jurisdiction shall consult with other public and private agencies that provide assisted housing, health services, and social services (including those focusing on services to children, elderly persons, persons with disabilities, persons with HIV/AIDS and their families, homeless persons) community-based and regionally-based organizations that represent protected class members, and organizations that enforce fair housing laws. When preparing the consolidated plan, the jurisdiction shall also consult with public and private organizations. Commencing with consolidated plans submitted on or after January 1, 2018, such consultations shall include broadband internet service providers, organizations engaged in narrowing the digital divide, agencies whose primary responsibilities include the management of flood prone areas, public land or water resources, and emergency management agencies.

*(Source:* [*24 CFR 91.100(a)(1)*](https://www.ecfr.gov/current/title-24/subtitle-A/part-91#91.100)*)*

The jurisdiction is required to adopt a citizen participation plan that sets forth the jurisdiction’s policies and procedures for citizen participation. (Where a jurisdiction, before August 17, 2015, adopted a citizen participation plan it, will need to amend the citizen participation plan to comply with provisions of this section.)

*(Source:* [*24 CFR 91.105(a)(1)*](https://www.ecfr.gov/current/title-24/subtitle-A/part-91#91.105)*)*

Local governments receive HOME funding under Ohio’s Community Housing Improvement Program (CHIP). The CHIP program is funded by both HOME funds (AL # 14.239) and Community Development Block Grant State Administered (CDBG) funds (AL # 14.228). Local governments receiving both HOME and CDBG funded CHIP awards will have separate grant agreements for the HOME award and CDBG award. Auditors should use the CDBG FACCR for CHIP and other awards under AL # 14.228.

Not all CHIP requirements apply equally to HOME funded and CDBG funded awards. Also, CHIP awards are made on a competitive basis. Accordingly, the auditor must review the grant agreement and attachments thereto in order to identify the requirements for the specific award. Grant agreement amendments must be in writing and be approved by both the local government and ODOD.

ODOD provides an annual application package containing an Application form, Application Instructions, CHIP Tips, and other program guidelines. OCD has issued a Financial Management Rules and Regulations manual available at ODOD OCD Program Policy Notice OCD 20-01 - Grant Operations and Financial Management Policy and Procedures at [Program Policy Notices](https://development.force.com/OCDTA/s/topic/0TOt0000000PPZ8GAO/policy-notices).

Please refer to the appropriate *Ohio Fiscal Year XXXX Consolidated Plan* (submitted to U.S. Dept. of Housing and Urban Development, as part of the State’s application for federal funding) regarding the three programs emphasized above. See the OHCP Publications website for available Consolidated state Plans (<https://development.ohio.gov/community/community-resources/ohio-consolidated-plan>). The Ohio Consolidated Plan should be considered when testing the applicable compliance requirements.

*(Source:* [*OCD Policy Notice 15.01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1tH/1b5DRUg_tUtpMMlOG_.B4Zl.8In7Z2En7ixkjhhcntM) *and* [*Ohio Consolidated Plan | Development*](https://development.ohio.gov/community/community-resources/ohio-consolidated-plan)*)*

### Reporting

Beginning with grants awarded in 2014, some entities are now forming partnerships for the Community Housing Impact & Preservation (CHIP) / CDBG grants (with another City, County, etc.). See the [Program year (PY) 2018 CHIP Partnership Agreement Guidance](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q2Kh/Yjrq5NGmd087Z6VpHI32.rVNfwBhQ1VThwYNFgU9v_4).

In these partnerships, there is 1 lead entity whose name the grant is in – this is the entity’s SEFA on which the grant belongs. All other non-lead partners to the grant are considered vendors/contractors, and therefore the grant does not get reported on their SEFA’s.

*(Source:* [*Program year (PY) 2018 CHIP Partnership Agreement Guidance*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q2Kh/Yjrq5NGmd087Z6VpHI32.rVNfwBhQ1VThwYNFgU9v_4)*)*

Additional SEFA and Footnote resources available for AOS Staff in the Audit Employees Briefcase and on the [IPA Resource Internet Page](http://www.ohioauditor.gov/references/practiceaids.html):

* Examples SEFA and Footnote shells
* Additional SEFA Guidance in the “Single Audit SEFA 2022 Completeness Guide”

*(Source: CFAE)*

# PART III – APPLICABLE COMPLIANCE REQUIREMENTS

## A. ACTIVITIES ALLOWED OR UNALLOWED

**Federal awarding agencies adopted/implemented the Uniform Guidance in 2 CFR Part 200. The OMB guidance is directed to federal agencies and, by itself, does not establish regulatory requirements binding on non-federal entities. Throughout the FACCR 2 CFR Part 200 has been referenced, however in determining compliance auditors need to refer the applicable agency codification of 2 CFR Part 200. Auditors should review this** [**link**](Agency%20Adoption%20of%20the%20UG%20and%20Example%20Citations.pdf) **for a full discussion of agency adoption of the UG and how to cite non-compliance exceptions. Auditors will need to start with the agency codification of the UG when citing exceptions.**

All references to sections within 2 CFR Part 200 can be found [here](2%20CFR%20Part%20200.pdf)

### OMB Compliance Requirements

**Important Note:** For a cost to be allowable, it must (1) be for a purpose the specific award permits and (2) fall within 2 CFR Part 200, Subpart E Cost Principles. These two criteria are roughly analogous to classifying a cost by both program/function and object. That is, the grant award generally prescribes the allowable program/function while 2 CFR 200, Subpart E prescribes allowable object cost categories and restrictions that may apply to certain object codes of expenditures.

For example, could a government use an imaginary Homeland Security grant to pay OP&F pension costs for its police force? To determine this, the client (and we) would look to the grant agreement to see if police activities (security of persons and property function cost classification) met the program objectives. Then, the auditor would look to Subpart E (provisions for selected items of cost § 200.420-200.476) to determine if pension costs (an object cost classification) are permissible. (200.431(g) states they are allowable, with certain provisions, so we would need to determine if the auditee met the provisions.) Both the client and we should look at 2 CFR Part 200, Subpart E even if the grant agreement includes a budget by object code approved by the grantor agency. Also, keep in mind that granting agencies have codified 2 CFR Part 200 and some agencies have been granted exceptions to provisions within 2 CFR Part 200.

*(Source: AOS CFAE)*

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of the Federal award contracts or grant agreements pertaining to the program. For programs listed in this Supplement, the specific requirements of the governing statutes and regulations are included in Part 4, “Agency Program Requirements” or Part 5, “Clusters of Programs,” as applicable. This type of compliance requirement specifies the activities that can or cannot be funded under a specific program.

**Source of Governing Requirements**

The requirements for activities allowed or unallowed are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

The most recent compilation of agency additions and exceptions is provided on the CFO website here: <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014. AOS evaluated agency exceptions through June 2022. AOS auditors only will need to reference our internal AOS evaluation process [at the following link](https://ohauditor.sharepoint.com/sites/Intranet/Shared%20Documents/Forms/AllItems.aspx?FolderCTID=0x0120002FFBFB1F4A3C3F47AE37C7A44E1C1EDE&id=%2Fsites%2FIntranet%2FShared%20Documents%2FAudit%5FResources%2FFederal%2FOther%20Federal%20Resources&viewid=68cb3ab2%2D567e%2D456a%2D975c%2Da88f3e9c3727).

**Part 4 OMB Program Specific Requirements**

*1. Activities Allowed*

**HOME**

a. HOME funds (including program income generated by activities carried out with HOME funds) may be used by participating jurisdictions to provide for: (a) incentives to develop and support affordable rental housing and homeownership affordability through the acquisition, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, and other expenses, including financing costs, relocation expenses of any displaced persons, families, businesses, or organizations; (b) tenant-based rental assistance, including security deposits; (c) the payment of reasonable administrative and planning costs; and (d) the payment of operating expenses of Community Housing Development Organizations (CHDOs). The housing must be permanent or transitional. The acquisition of vacant land or demolition can only be undertaken with respect to a particular housing project intended to provide affordable housing, and when construction is expected to begin within 12 months. Conversion of an existing structure to affordable housing is rehabilitation unless certain circumstances exist. Manufactured housing may be purchased or rehabilitated and the land upon which it is built may be purchased with HOME funds. HOME funds may be used to pay for development construction hard costs, refinancing costs, acquisition costs, related soft costs, CHDO costs, relocation costs, and costs related to the repayment of loans (24 CFR sections 92.205(a) and 92.206).

b. A participating jurisdiction may use or “invest” HOME funds as equity investments, interest-bearing loans or advances, non-interest-bearing loans or advances, interest subsidies, deferred payment loans, grants, or other forms of assistance approved by HUD. A participating jurisdiction may invest HOME funds to guarantee loans made by lenders and, if required, the participating jurisdiction may establish a loan guarantee account with HOME funds. The amount of the loan guarantee account must be based on a reasonable estimate of the default rate on the guaranteed loans but under no circumstances, may the amount on deposit exceed 20 percent of the total outstanding principal amount guaranteed, except that the account may include a reasonable minimum balance. While loan funds guaranteed with HOME funds are subject to all HOME requirements, funds which are used to repay the guaranteed loans are not (24 CFR section 92.205(b)).

**HOME-ARP**

a. Affordable Rental Housing: HOME-ARP rental funds may be used to acquire, construct or rehabilitate housing for those that meet the definition of one or more of the qualifying populations described in the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf). Acquisition of vacant land or demolition must be undertaken only with respect to a particular housing project intended to provide HOME-ARP rental housing within the timeframes provided in Section VI.B. of the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf).

HOME-ARP funds may be used to assist one or more units in a project. Only the eligible development costs of the HOME-ARP units may be charged to the HOME-ARP program. Cost allocation in accordance with 24 CFR 92.205(d)(1) is required if the assisted and non-assisted units are not comparable. After project completion, the number of HOME-ARP units in a project cannot be reduced. During the HOME-ARP minimum compliance period and prior to the end of the HOME-ARP budget period, a PJ may invest additional HOME-ARP funds to provide operating cost assistance but is prohibited from investing additional HOME-ARP funds for capital costs except within the 12 months after project completion. A qualifying household admitted to a HOME-ARP rental unit may still receive HOME-ARP supportive services or Tenant-based Rental Assistance (TBRA) in accordance with the requirement of the HOME- ARP Implementing Notice.

Unlike the HOME program, which targets HOME-assisted rental units based on tenant income, 70 percent of all HOME-ARP-assisted units will admit households based only upon their status as qualifying households. The remaining 30 percent of assisted units may be occupied by low- income households.

HUD used its HOME-ARP statutory authority to permit the use of HOME-ARP funds to provide ongoing operating cost assistance or capitalize a project operating cost assistance reserve to address operating deficits of the HOME-ARP units restrict for qualifying households during the compliance period. HUD also suspended the maximum per-unit subsidy limit for HOME-ARP units, enabling HOME-ARP funds to pay the entire cost to acquire, rehabilitate and/or construct the HOME-ARP rental units.

b. HOME-ARP Tenant-Based Rental Assistance (HOME-ARP TBRA) may be used to provide rental assistance, security deposit payments, and utility deposit assistance to qualifying households. HOME-ARP funds may be used to pay for up to 100 percent of these eligible costs. A PJ may use HOME-ARP TBRA funds to provide loans or grants to qualifying households for security deposits for rental units regardless of whether the PJ provides any other HOME-ARP TBRA assistance. The amount of funds that may be provided for a security deposit may not exceed the equivalent of two months’ rent for the unit. Utility deposit assistance is an eligible cost only if rental assistance or a security deposit payment is provided. Costs of inspecting the housing are also eligible costs of HOME-ARP TBRA. Administration of HOME-ARP TBRA is an eligible cost **only** if executed in accordance with general management oversight and coordination at 24 CFR 92.207(a), except that the costs of inspecting the housing and determining the income eligibility of the family are eligible project costs under HOME-ARP TBRA.

Funding may also go towards a HOME-ARP sponsor, which is a nonprofit organization that provides housing or supportive services to qualifying households, to facilitate the leasing of a HOME-ARP rental unit or the use and maintenance of HOME-ARP TBRA. A sponsor may make rental subsidy payments and a security deposit payment on behalf of a qualifying household.

c. Supportive Services- may only be provided to individuals and families who meet the definition of a qualifying population under Section IV.A of the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf) and who are not already receiving these services through another program.

There are three categories of supportive services:

(1) McKinney-Vento Supportive Services, listed in section 401(29) of the McKinney-Vento Homeless Assistance Act (42 USC 11360(29)).

(2) Homelessness Prevention Services adapted from eligible homelessness prevention services under the Emergency Service Grant regulations at 24 CFR Part 576. See section VI.D of the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf) for list of eligible services and costs.

(3) Housing Counseling Services defined at 24 CFR 5.100 and 5.111, except for homeowner assistance and related services are not eligible.

d. Acquisition and Development of Non-Congregate Shelter (NCS): A non- congregate shelter is one or more buildings that provide private units or rooms as temporary shelter to individuals and families and does not require occupants to sign a lease or occupancy agreement. HOME-ARP funds may be used to acquire and develop non-congregate shelter (HOME-ARP NCS) for those that meet one of the qualifying populations defined in the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf). This activity may include new construction or the acquisition and/or rehabilitation of existing structures (such as motels, nursing homes or other facilities). Also, the demolition to existing structures for the purpose of developing HOME-ARP NCS is allowed. HOME-ARP funds may also be used for improvements to the project site, including the installation of utilities or utility connections, laundry facilities, community facilities, on-site management, or supportive service offices.

Soft Costs allowable are necessary costs incurred by the Participating Jurisdiction, subrecipient, or project owner associated with financing, acquisition, and development of HOME-ARP NCS projects. Also, replacement reserves to cover reasonable and necessary costs of replacing major systems and their components is allowable.

e. Nonprofit Operating and Capacity Building Assistance: A PJ may use up to five percent of its HOME-ARP allocation to pay operating expenses of CHDOs and other nonprofit organizations that will carry out activities with HOME-ARP funds. A PJ may also use up to an additional five percent of its allocation to pay eligible costs related to developing the capacity of eligible nonprofit organizations to successfully carry out HOME-ARP eligible activities.

PJs may award operating expense assistance or capacity building assistance to a nonprofit organization if it reasonably expects to provide HOME-ARP funds to the organization for any of the eligible HOME-ARP activities within 24 months of the award.

Operating expenses are defined as reasonable and necessary costs of operating the nonprofit organization. HOME-ARP funds used for operating expenses must be used for the “general operating costs” of the nonprofit organization. These costs include employee salaries, wages and other employee compensation and benefits; employee education, training, and travel; rent; utilities, communication costs; taxes, insurance; equipment, materials, and supplies.

Capacity Building Assistance expenses are defined as reasonable and necessary general operating costs that will result in expansion or improvement of an organization’s ability to successfully carry out eligible HOME-ARP activities. Eligible costs include salaries for new hires including wages and other employee compensation and benefits; costs related to employee training or other staff development that enhances an employee’s skill set and expertise; equipment (e.g., computer software or programs that improve organizational processes), upgrades to material and equipment, and supplies; and contracts for technical assistance or for consultants with expertise related to the HOME-ARP qualifying populations.

NAHA and the HOME regulations limit the amount of operating expense assistance that an organization can receive annually. ARP extends this limitation to the capacity building assistance paid with HOME-ARP funds.

• In any fiscal year, operating assistance provided to a nonprofit organization may not exceed the greater of 50 percent of the general operating expenses of the organization for that fiscal year or $50,000.

• In any fiscal year, capacity building assistance provided to a nonprofit organization may not exceed the greater of 50 percent of the general operating expenses of the organization for that fiscal year or $50,000.

• If an organization received both operating assistance and capacity building assistance in any fiscal year, the aggregate total amount of assistance it may receive is the greater of 50 percent of the organization’s total operating expenses for that fiscal year or $75,000.

f. A participating jurisdiction may use or “invest” HOME-ARP funds as equity investments, interest-bearing loans or advances, non-interest- bearing loans or advances, interest subsidies, deferred payment loans, grants, or other forms of assistance approved by HUD. A participating jurisdiction may invest HOME-ARP funds to guarantee loans made by lenders and, if required, the participating jurisdiction may establish a loan guarantee account with HOME-ARP funds. The amount of the loan guarantee account must be based on a reasonable estimate of the default rate on the guaranteed loans but under no circumstances, may the amount on deposit exceed 20 percent of the total outstanding principal amount guaranteed, except that the account may include a reasonable minimum balance. While loan funds guaranteed with HOME-ARP funds are subject to all HOME-ARP and HOME (as amended in the HOME-ARP Implementing Notice) requirements, funds which are used to repay the guaranteed loans are not (24 CFR section 92.205(b)).

*2. Activities Unallowed*

**HOME**

HOME funds may not be used for (a) project reserve accounts or operating subsidies; (b) tenant-based rental assistance for the special purpose of the Section 8 program; (c) nonfederal matching contributions under any other federal program; (d) annual contributions for the operation of public housing; (e) public housing modernization; (f) assistance to prepay low-income housing mortgages; (g) assistance to a project previously assisted with HOME funds during the period of affordability (i.e., the period for which the nonfederal entity must maintain subsidized housing); (h) the acquisition of property owned by the participating jurisdiction (except for property acquired with HOME funds or in anticipation of a HOME project); and (i) payment of delinquent taxes, fees, or charges.

Participating jurisdictions may not charge servicing, origination, or other fees for the purpose of covering costs of administering the HOME program. Participating jurisdictions may charge: (1) owners of rental projects reasonable annual fees for compliance monitoring during the period of affordability, (2) application fees to project owners to discourage frivolous applications, and (3) homebuyers a fee for housing counseling (24 CFR section 92.214).

**HOME-ARP**

a. Affordable Rental Housing: Emergency shelter, hotels, and motels (including those currently operating as non-congregate shelter), facilities such as nursing homes, residential treatment facilities, correctional facilities, halfway houses. However, housing for students or dormitories do not constitute housing in the HOME-ARP program.

HOME-ARP may not be used for any of the prohibited activities, costs or fees in 24 CFR 92.214, as revised by the Appendix of the HOME-ARP Implementing Notice.

b. HOME-ARP TBRA: funds may not be used to pay for the homebuyer program as defined at 24 CFR 92.209(c)(2)(iv).

c. Supportive Services: HOME-ARP funds may not be used to provide supportive services to individuals or families that do not meet the definition of a qualifying population defined in Section IV.A. of the HOME-ARP Implementing Notice.

Costs for the provision of services to existing homeowners related to homeownership and mortgages to existing homeowners are not eligible. (If a program participant is a candidate for homeownership, costs associated with pre-purchase homebuying counseling, education and outreach are eligible.)

No duplication of services; PJs are responsible for establishing requirements that allow a program participant to receive only the HOME- ARP services needed.

d. Non-Congregate Shelter: HOME-ARP funds may not be used to pay ongoing costs of operating HOME-ARP NCS (such as allocable overhead and staffing costs, insurance, utilities) or to convert NCS to housing.

HOME-ARP funds may not be used to pay the operating costs of HOME- ARP NCS. The PJ is prohibited from investing additional HOME-ARP funds to pay for the cost of converting the NCS project from HOME-ARP NCS to permanent affordable housing or to pay for operating the project as permanent affordable housing.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

**Ohio Department of Development**

Determining Allowability of Costs

The grantee must establish, use, and keep on file a procedure for determining the reasonableness, allowability and allocability of costs. Vouchers and invoices should be reviewed and signed to ensure costs being charged to the grant are eligible and charged against the correct activity for the correct grant. Prior to costs being incurred, the grant agreement must be signed and special conditions of the grant agreement must be cleared. The exceptions to this are:

* Administrative costs for the Environmental Review;
* Costs associated with the preparation of the grant application;
* Preliminary engineering and design costs associated with cost estimates for an eligible activity;
* Costs of complying with procedural requirements for acquisition subject to the Uniform Act but not for the cost of the real property itself.
* When a “Pre-Agreement” letter is issued the grantee may proceed with the activities specified in the letter. Proceeding with the activities outlined in the letter will be done “at risk” by the grantee, pending the execution of the grant agreement.

After the effective date of the Grant Agreement, the grantee may be reimbursed with funds from its grant to cover the above costs, provided such locally funded activities were undertaken in compliance with OCD requirements.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Page 4)*

Auditors should refer to Part I of the [Ohio Department of Development Housing Program Manual](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q245/O.KK6oRYONe4sqtby845rYiKpRNZcv5cMsDuoNVpcxo) (Non-Participating Jurisdiction Housing Handbook) for more detail guidelines on allowable activities. Also, the grant agreement between ODOD and a grantee is a key document governing the local program. The grant agreement identifies the scope of the program and the funds available to implement that program, describes the responsibilities of each party and the timeframe within which activities are to take place.

Part 1, Section 4. A. of the ODOD Housing Program Manual (Non-Participating Jurisdiction Housing Handbook) provides additional explanation about HUD requirements for various CDBG program properties and activities and meeting the HUD National Objectives.

*(Source: AOS CFAE and* [*Ohio Department of Development Housing Program Manual*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q245/O.KK6oRYONe4sqtby845rYiKpRNZcv5cMsDuoNVpcxo)*, Page 19)*

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

1. Determine whether Federal awards were expended only for allowable activities.

*(Source: 2022 OMB Compliance Supplement Part 3)*

|  |
| --- |
| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures – Compliance

|  |
| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of the contract or grant agreements pertaining to the program.  2. When allowability is determined based upon summary level data, perform procedures to verify that:  a. Activities were allowable.  b. Individual transactions were properly classified and accumulated into the activity total.  3. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.  4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities. |

### Audit Implications Summary

|  |
| --- |
| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## B. ALLOWABLE COSTS/COST PRINCIPLES

**Federal awarding agencies adopted/implemented the Uniform Guidance in 2 CFR part 200. The OMB guidance is directed to Federal agencies and, by itself, does not establish regulatory requirements binding on non-federal entities. Throughout the FACCR 2 CFR part 200 has been referenced, however in determining compliance auditors need to refer the applicable agency codification of 2 CFR Part 200. Auditors should review this** [**link**](Agency%20Adoption%20of%20the%20UG%20and%20Example%20Citations.pdf) **for a full discussion of agency adoption of the UG and how to cite non-compliance exceptions. Auditors will need to start with the agency codification of the UG when citing exceptions.**

All references to sections within 2 CFR Part 200 can be found [here](2%20CFR%20Part%20200.pdf)

### Applicability of Cost Principles

**Important Note:** For a cost to be allowable, it must (1) be for a purpose the specific award permits and (2) fall within 2 CFR Part 200, Subpart E Cost Principles. These two criteria are roughly analogous to classifying a cost by both program/function and object. That is, the grant award generally prescribes the allowable program/function while 2 CFR Part 200, Subpart E prescribes allowable object cost categories and restrictions that may apply to certain object codes of expenditures.

For example, could a government use an imaginary Homeland Security grant to pay OP&F pension costs for its police force? To determine this, the client (and we) would look to the grant agreement to see if police activities (security of persons and property function cost classification) met the program objectives. Then, the auditor would look to Subpart E (provisions for selected items of cost § 200.420-200.475) to determine if pension costs (an object cost classification) are permissible. (200.431(g) states they are allowable, with certain provisions, so we would need to determine if the auditee met the provisions.) Both the client and we should look at 2 CFR Part 200, Subpart E even if the grant agreement includes a budget by object code approved by the grantor agency. Also keep in mind that granting agencies have codified 2 CFR Part 200 and some agencies have been granted exceptions to provisions within 2 CFR Part 200.

*(Source: AOS CFAE)*

The cost principles in 2 CFR Part 200, Subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of Federal awards by:

1. States, local governments and Indian tribes
2. Institutions of higher education (IHEs)
3. Nonprofit organizations

As provided in 2 CFR 200.101, the cost principles requirements apply to all Federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR 200.101(e) (see Appendix I of this Supplement). Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from 2 CFR Part 200, Subpart E, but are subject to the requirements [45 CFR Part 75, Appendix IX](Appendix%20IX%20to%20Part%2075_%20Title%2045.pdf), the Department of Health and Human Services (HHS) implementation of 2 CFR Part 200. The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal awarding agency or indirectly through a pass-through entity. For this purpose, Federal awards include cost-reimbursement contacts under the Federal Acquisition Regulation (FAR). The cost principles do not apply to Federal awards under which a non-Federal entity is not required to account to the Federal awarding agency or pass-through entity for actual costs incurred.

**Source of Governing Requirements**

The requirements for allowable costs/cost principles are contained in 2 CFR Part 200, Subpart E, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The requirements for the development and submission of indirect (facilities and administration (F&A)) cost rate proposals and cost allocation plans (CAPs) are contained in 2 CFR Part 200, Appendices III-VII as follows:

* Appendix III to Part 200—Indirect (F&A) Const Identification and Assignment and Rate Determination for Institutions of Higher Education (IHEs)
* Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
* Appendix V to Part 200—State/Local Government-Wide Central Service Cost Allocation Plans
* Appendix VI to Part 200—Public Assistance Cost Allocation Plans
* Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals

Except for the requirements identified below under “Basic Guidelines,” which are applicable to all types of non-Federal entities, this compliance requirement is divided into sections based on the type of non-Federal entity. The differences that exist are necessary because of the nature of the non-Federal entity organizational structures, programs administered, and breadth of services offered by some non-Federal entities and not others.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

The most recent compilation of agency additions and exceptions is provided on the CFO website here: <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014. AOS evaluated agency exceptions through June 2022. AOS auditors only will need to reference our internal AOS evaluation process [at the following link](https://ohauditor.sharepoint.com/sites/Intranet/Shared%20Documents/Forms/AllItems.aspx?FolderCTID=0x0120002FFBFB1F4A3C3F47AE37C7A44E1C1EDE&id=%2Fsites%2FIntranet%2FShared%20Documents%2FAudit%5FResources%2FFederal%2FOther%20Federal%20Resources&viewid=68cb3ab2%2D567e%2D456a%2D975c%2Da88f3e9c3727).

**Basic Guidelines**

Except where otherwise authorized by statute, cost must meet the following general criteria in order to be allowable under Federal awards;

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under the principles in 2 CFR Part 200, Subpart E.

2. Conform to any limitations or exclusions set forth in 2 CFR Part 200, Subpart E or in the Federal award as to types or amount of cost items.

3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity.

4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for State and local governments and Indian tribes only, as otherwise provided for in 2 CFR Part 200.

6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.

7. Be adequately documented.

**Selected Items of Cost**

2 CFR 200.420 - 200.476 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in 2 CFR 200.402 - 200.411.

[List of Selected Items of Cost Contained in 2 CFR Part 200](Selected_Items_of_Cost_Part_3_ComplianceSupplement.pdf)

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

There are no program specific requirements for this compliance section.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

**Written Procedure Requirements:**

2 CFR 200.302(b)(7) requires written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles of this part and the terms and conditions of the Federal award.

2 CFR 200.430 states that costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities; (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

2 CFR 200.431 requires established written leave policies if the entity intends to pay fringe benefits.

2 CFR 200.464(a)(2) requires reimbursement of relocation costs to employees be in accordance with an established written policy must be consistently followed by the employer.

2 CFR 200.475 requires reimbursement and/or charges to be consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies.

*(Source: CFAE/eCFR)*

### Additional Program Specific Information

**Ohio Department of Development**

Though the A-102 Common Rule and specified portions of 2 CFR part 200 do not apply to this program under federal requirements, ODOD has imposed the following general requirements: “Grantees receiving federal funds must comply with the following: 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Page 3)*

Determining Allowability of Costs

The grantee must establish, use, and keep on file a procedure for determining the reasonableness, allowability and allocability of costs. Vouchers and invoices should be reviewed and signed to ensure costs being charged to the grant are eligible and charged against the correct activity for the correct grant. Prior to costs being incurred, the grant agreement must be signed and special conditions of the grant agreement must be cleared. The exceptions to this are:

* Administrative costs for the Environmental Review;
* Costs associated with the preparation of the grant application;
* Preliminary engineering and design costs associated with cost estimates for an eligible activity;
* Costs of complying with procedural requirements for acquisition subject to the Uniform Act but not for the cost of the real property itself.
* When a “Pre-Agreement” letter is issued the grantee may proceed with the activities specified in the letter. Proceeding with the activities outlined in the letter will be done “at risk” by the grantee, pending the execution of the grant agreement.

After the effective date of the Grant Agreement, the grantee may be reimbursed with funds from its grant to cover the above costs, provided such locally funded activities were undertaken in compliance with OCD requirements.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Page 4)*

Documentation of Approved Indirect Cost Rate Proposal

In order to receive indirect cost reimbursements, an Indirect Cost Rate Proposals must be approved by the designated cognizant agency as outlined in 2 CFR §200.414 and the applicable appendix. The approved Indirect Cost Rate Proposal must be submitted annually to OCD and expenditures made under the approved Indirect Cost Rate Proposal are subject to audit.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Page 6)*

Audit Costs

OCD-awarded funds be used to pay for an audit; funds must be drawn by the date required in the grant agreement. These funds may be held as part of the $5,000 balance of OCD-awarded funds on hand until the audit is completed and are therefore not subject to the 30-day rule.

The expenses for administration and audit may not exceed the administrative activities in the grant agreement.

The percentage of costs charged to the OCD-funded program for a single audit may not exceed the percent the total funds audited represented by the OCD-awarded funds.

Cost charged for the audit must be reasonable. If the audit is prepared by the state auditor’s office and the grantee believes the costs are not reasonable, they should contact the District Audit Chief. If still not satisfied with the explanation of the cost charged, the grantee should contact the Auditor of State at 1-800-282-0370.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Page 10)*

### Indirect Cost Rate

Except for those non-Federal entities described in 2 CFR Part 200, Appendix VII, paragraph D.1.b, if a non-Federal entity has never received a negotiated indirect cost rate, it may elect to charge a de minimis rate of 10 percent of modified total direct costs (MTDC). Effective on November 12, 2020, any non-federal entity can use the de minimus rate. Such a rate may be used indefinitely or until the non-Federal entity chooses to negotiate a rate, which the non-Federal entity may do at any time. If a non-Federal entity chooses to use the de minimis rate, that rate must be used consistently for all of its Federal awards. Also, as described in 2 CFR 200.403, costs must be consistently charged as either indirect or direct, but may not be double charged or inconsistently charged as both. In accordance with 2 CFR 200.400(g), a non-Federal entity may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the award. A non-federal entity can always choose to charge the federal award less than the negotiated rates or the de minimis rate.

*(Source: 2022 OMB Compliance Supplement Part 3)*

#### Audit Objectives (Deminimis Indirect Cost Rate) and Control Testing Procedures

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

1. Determine that the de minimis rate is applied to the appropriate base amount.
2. Determine that the de minimis rate is used consistently by a non-federal entity under its federal awards.

*(Source: 2022 OMB Compliance Supplement Part 3)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

#### Suggested Compliance Audit Procedures – De Minimis Indirect Cost Rate

**Note**: The following subsections identify requirements specific to each type of non-Federal entity.

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| The following suggested audit procedures apply to any non-Federal entity using a de minimis indirect cost rate, whether as a recipient or a subrecipient. None of the procedures related to indirect costs in the sections organized by type of non-Federal entity apply when a de minimis rate is used.  **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Determine that the non-Federal entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for the three fiscal years immediately prior to the current audit period.  2. Test a sample of transactions for conformance with 2 CFR 200.414(f).  a Select a sample of claims for reimbursement of indirect costs and verify that the de minimis rate was used consistently, the rate was applied to the appropriate base, and the amounts claimed were the product of applying the rate to a modified total direct costs base.  b Verify that the costs included in the base are consistent with the costs that were included in the base year, i.e., verify that current year modified total direct costs do not include costs items that were treated as indirect costs in the base year.  3. For a non-Federal entity conducting a single function, which is predominately funded by Federal awards, determine whether use of the de minimis indirect cost rate resulted in the non-Federal entity double-charging or inconsistently charging costs as both direct and indirect. |

**2 CFR PART 200**

### Cost Principles for States, Local Governments and Indian Tribes

**Introduction**

2 CFR Part 200, Subpart E and Appendices III-VII establish principles and standards for determining allowable direct and indirect costs for Federal awards. This section is organized into the following areas of allowable costs: States and Local Government and Indian Tribe Costs (Direct and Indirect); State/Local Government Central Service Costs; and State Public Assistance Agency Costs.

***Cognizant Agency for Indirect Costs***

2 CFR Part 200, Appendix V, paragraph F, provides the guidelines to use when determining the Federal agency that will serve as the cognizant agency for indirect costs for States, local governments, and Indian tribes. References to the “cognizant agency for indirect costs” are not equivalent to the cognizant agency for audit responsibilities, which is defined in 2 CFR 200.1\_Cognizant\_Agency.

For indirect cost rates and departmental indirect cost allocation plans, the cognizant agency is generally the Federal agency with the largest value of direct Federal awards (excluding pass-through awards) with a governmental unit or component, as appropriate. In general, unless different arrangements are agreed to by the concerned Federal agencies or described in 2 CFR Part 200, Appendix V, paragraph F, the cognizant agency for central service cost allocation plans is the Federal agency with the largest dollar value of total Federal awards (including pass-through awards) with a governmental unit.

Once designated as the cognizant agency for indirect costs, the Federal agency remains so for a period of 5 years. In addition, 2 CFR Part 200, Appendix V, paragraph F, lists the cognizant agencies for certain specific types of plans and the cognizant agencies for indirect costs for certain types of governmental entities. For example, HHS is cognizant for all public assistance and State-wide cost allocation plans for all States (including the District of Columbia and Puerto Rico), State and local hospitals, libraries, and health districts and the Department of the Interior (DOI) is cognizant for all Indian tribal governments, territorial governments, and State and local park and recreational districts.

*(Source: 2022 OMB Compliance Supplement Part 3)*

#### Audit Objectives/Compliance Requirements and Control Tests Allowable Costs –– Direct and Indirect Costs

The individual State/local government/Indian tribe departments or agencies (also known as “operating agencies”) are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with 2 CFR Part 200, Subpart E.

The indirect cost rate proposal (ICRP) provides the documentation prepared by a State/local government/Indian tribe department or agency to substantiate its request for the establishment of an indirect cost rate. The indirect costs include (1) costs originating in the department or agency of the governmental unit carrying out Federal awards, and (2) for States and local governments, costs of central governmental services distributed through the State/local government-wide central service CAP that are not otherwise treated as direct costs. The ICRPs are based on the most current financial data and are used to either establish predetermined, fixed, or provisional indirect cost rates or to finalize provisional rates (for rate definitions refer to 2 CFR Part 200, Appendix VII, paragraph B).

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

**Audit Objectives: Direct Costs**

Determine whether the organization complied with the provisions of 2 CFR Part 200 as follows:

1. Direct charges to federal awards were for allowable costs.
2. Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.

**Audit Objectives: Indirect Costs**

Determine whether the governmental unit complied with the provisions of 2 CFR Part 200 as follows:

1. Charges to cost pools used in calculating indirect cost rates were for allowable costs.
2. The methods for allocating the costs are in accordance with the cost principles, and produce an equitable and consistent distribution of costs (e.g., all activities that benefit from the indirect cost, including unallowable activities, must receive an appropriate allocation of indirect costs).
3. Indirect cost rates were applied in accordance with negotiated indirect cost rate agreements (ICRA).
4. For State/local departments or agencies that do not have to submit an ICRP to the cognizant agency for indirect costs (those that receive less than $35 million in direct Federal awards), indirect cost rates were applied in accordance with the ICRP maintained on file.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Additional Control Test Objectives for Written Procedures**

When documenting and identifying the key control(s) in place to address the compliance requirement, consider if the client has written procedures to document the control process.

* UG requires written policies for the requirements outlined in 2 CFR 200.302(b)(7), 2 CFR 200.430, 2 CFR 200.431, 2 CFR 200.464(a)(2), and 2 CFR 200.475*.*
* Document whether the non-federal entity established written procedures consistent with the following requirements:
  + 2 CFR 200.302(b)(7) for determining the allowability of costs in accordance with Subpart E-Cost Principles.
  + 2 CFR 200.430 for allowability of compensation costs.
  + 2 CFR 200.431 for written leave policies.
  + 2 CFR 200.464(a)(2) for reimbursement of relocation costs.
  + 2 CFR 200.475 for travel reimbursements.
* It is auditor judgment how to report instances where the entity either lacks having a written policy or their written policy is insufficient to meet the requirements of 2 CFR 200.302(b)(7), 2 CFR 200.430, 2 CFR 200.431, 2 CFR 200.464(a)(2), and 2 CFR 200.475.
  + While auditors would normally use a written policy as the basis for the compliance control, there could be other key controls in place to ensure program compliance.
  + The lack of a policy would be noncompliance, which could rise to the level of material noncompliance and even a control deficiency (SD / MW) if there were underlying internal control deficiencies.
    - If there are key controls in place operating effectively, AOS auditors would report the lack of the required UG policy as a management letter citation. However, in subsequent audits, evaluate if the noncompliance should be elevated if not adopted. Written policies aid in consistency and adherence to requirements strengthening internal control processes.

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

#### Suggested Compliance Audit Procedures – Direct and Indirect Costs

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| ***Direct Costs***  Test a sample of transactions for conformance with the following criteria contained in 2 CFR Part 200, as applicable:   1. If the auditor identifies unallowable direct costs, the auditor should be aware that “directly associated costs” might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable. 2. Costs were approved by the Federal awarding agency, if required (see the above table (Selected Items of Cost, Exhibit 1) or 2 CFR 200.407 for selected items of cost that require prior written approval). 3. Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).   d. Costs were necessary and reasonable for the performance of the Federal award and allocable under the principles of 2 CFR Part 200, Subpart E.  e. Costs conformed to any limitations or exclusions set forth in 2 CFR Part 200, Subpart E, or in the Federal award as to types or amount of cost items.  f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the State/local government/Indian tribe department or agency.  g. Costs were accorded consistent treatment. Costs were not assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.  h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.  i. Costs were not used to meet the cost-sharing or matching requirements of another Federal program, except where authorized by Federal statute.  j. Costs were adequately documented.  ***Indirect Costs***  a. If the State/local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.  b. *General Audit Procedures* – The following procedures apply to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of 2 CFR 200.402 - 200.411.  (b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 200.420 - 200.476).  Note: While several selected items of cost are included in Exhibit 1 , one item to note is *Compensation - Personnel Services*, (formally referred to as Time and Effort/Semi Annual Certification). See 2 CFR 200.430.  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for State, Local Government, and Indian Tribe ICRPs (see also the AOS discussion on* [*testing the ICRP*](Testing%20the%20ICRP%20discussion.pdf)*)*  (1) Verify that the ICRP includes the required documentation in accordance with 2 CFR Part 200, Appendix VII, paragraph D.  (2) *Testing of the ICRP* – There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with 2 CFR Part 200). Should there be audit exceptions, corrective action may be taken earlier to minimize questioned costs. In the next year’s audit, the auditor should complete testing and verify management’s representations against the completed ICRP.  The following procedures are some acceptable options the auditor may use to obtain assurance that the costs collected in the cost pools and the allocation methods used are in compliance with 2 CFR Part 200, Subpart E:  (a) *Indirect Cost Pool* – Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR Part 200.  (i) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).  (ii) Identify significant changes in expense categories between the prior ICRP and the current ICRP. Test a sample of transactions to verify the allowability of the costs.  (iii) Trace the central service costs that are included in the indirect cost pool to the approved State/local government or central service CAP or to plans on file when submission is not required.  (b) *Direct Cost Base* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR Part 200 and produce an equitable distribution of costs.  (i) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.  (ii) If the direct cost base is not limited to direct salaries and wages, determine that distorting items are excluded from the base. Examples of distorting items include capital expenditures, flow-through funds (such as benefit payments), and subaward costs in excess of $25,000 per subaward.  (iii) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).  (c) *Other Procedures*  (i) Examine the records for employee compensation to ascertain if they are accurate, and the costs are allowable and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged. (Refer to 2 CFR 200.430 for additional information on support of salaries and wages.)  (ii) For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.  (3) *Testing of Charges Based Upon the ICRA* – Perform the following procedures to test the application of charges to Federal awards based upon an ICRA:  (a) Obtain and read the current ICRA and determine the terms in effect.  (b) Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current-year direct costs do not include costs items that were treated as indirect costs in the base year).  (4) *Other Procedures* – No Negotiated ICRA  (a) If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, the auditor should determine whether documentation exists to support the costs. When the auditee has documentation, the suggested general audit procedures under paragraph 3.b above should be performed to determine the appropriateness of the indirect cost charges to awards.  (b) If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation. |

### Allowable Costs – State/Local Government-wide Central Service Costs

Most governmental entities provide services, such as accounting, purchasing, computer services, and fringe benefits, to operating agencies on a centralized basis. Since the Federal awards are performed within the individual operating agencies, there must be a process whereby these central service costs are identified and assigned to benefiting operating agency activities on a reasonable and consistent basis. The State/local government-wide central service cost allocation plan (CAP) provides that process. (Refer to 2 CFR Part 200, Appendix V, for additional information and specific requirements.)

The allowable costs of central services that a governmental unit provides to its agencies may be allocated or billed to the user agencies. The State/local government-wide central service CAP is the required documentation of the methods used by the governmental unit to identify and accumulate these costs, and to allocate them or develop billing rates based on them.

Allocated central service costs (referred to as Section I costs) are allocated to benefiting operating agencies on some reasonable basis. These costs are usually negotiated and approved for a future year on a “fixed-with-carry-forward” basis. Examples of such services might include general accounting, personnel administration, and purchasing. Section I costs assigned to an operating agency through the State/local government-wide central service CAP are typically included in the agency’s indirect cost pool.

Billed central service costs (referred to as Section II costs) are billed to benefiting agencies and/or programs on an individual fee-for-service or similar basis. The billed rates are usually based on the estimated costs for providing the services. An adjustment will be made at least annually for the difference between the revenue generated by each billed service and the actual allowable costs. Examples of such billed services include computer services, transportation services, self- insurance, and fringe benefits. Section II costs billed to an operating agency may be charged as direct costs to the agency’s Federal awards or included in its indirect cost pool.

*(Source: 2022 OMB Compliance Supplement Part 3)*

#### Audit Objectives/Compliance Requirements and Control Tests Allowable Costs - State/Local Government-wide Central Service Costs

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

1. Determine whether the governmental unit complied with the provisions of 2 CFR part 200 as follows:
   1. Charges to cost pools allocated to Federal awards through the central service CAPs were for allowable costs.
   2. The methods of allocating the costs are in accordance with the cost principles, and produce an equitable and consistent distribution of costs, which benefit from the central service costs being allocated (e.g., cost allocation bases include all activities, including all State departments and agencies and, if appropriate, non-State organizations which receive services).
2. Cost allocations were in accordance with central service CAPs approved by the cognizant agency for indirect costs or, in cases where such plans are not subject to approval, in accordance with the plan on file.

**Compliance Requirements – State/Local Government-Wide Central Service Costs**

1. *Submission Requirements*
   1. Submission requirements are identified in 2 CFR Part 200, Appendix V, paragraph D.
   2. A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.
   3. A “major local government” is required to submit a central service CAP to its cognizant agency for indirect costs annually. *Major local government* means a local government that receives more than $100 million in direct Federal awards (not including pass-through awards) subject to 2 CFR Part 200, Subpart E. All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in 2 CFR part 200 and maintain the plan and related supporting documentation for audit. These local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs.
   4. All central service CAPs will be prepared and, when required, submitted within the 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency for indirect costs on a case-by-case basis.
2. *Documentation Requirements*
   1. The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.
   2. The documentation requirements for all central service CAPs are contained in 2 CFR Part 200, Appendix V, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in 2 CFR section 200.334(f).
3. *Required Certification –* No proposal to establish a central service CAP, whether submitted to the cognizant agency for indirect costs or maintained on file by the governmental unit, must be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in 2 CFR Part 200, Appendix V, paragraph E.4.
4. *Allocated Central Service Costs (Section I Costs)* – A carry-forward adjustment is not permitted for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately (2 CFR Part 200, Appendix V, paragraph G.3).
5. *Billed Central Service Costs (Section II Costs)*
   1. Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss (2 CFR Part 200, Appendix V, paragraph G.1).
   2. Internal service funds for central service activities are allowed a working capital reserve of up to 60 calendar days cash expenses for normal operating purposes (2 CFR Part 200, Appendix V, paragraph G.2). A working capital reserve exceeding 60 calendar days may be approved by the cognizant agency for indirect costs in exceptional cases.
   3. Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (2 CFR Part 200, Appendix V, paragraph G.4). A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. The adjustments will be made through one of the following methods, at the option of the cognizant agency:
      1. If revenue exceeds costs, a cash refund to the Federal Government for the Federal share of the adjustment, including earned or imputed interest from the date of expenditure and debt interest, if applicable, chargeable in accordance with applicable cognizant agency for indirect costs regulations;
      2. Credits to the amounts charged to the individual programs;
      3. Adjustments to future billing rates; or
      4. Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service (Federal share and non-Federal share) does not exceed $500,000.
   4. Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds must be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer and debt interest, if applicable, chargeable in accordance with applicable cognizant agency for indirect cost claims collection regulations (2 CFR section 200.447(d)(5)).

*(Source: 2022 OMB Compliance Supplement Part 3)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

#### Suggested Compliance Audit Procedures – State/Local Government-Wide Central Service Costs

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. For local governments that are not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.  b. *General Audit Procedures for State/Local Government-Wide Central Service CAPs* – The following procedures apply to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of 2 CFR Part 200, Subpart E (200.402 – 200.411).  (b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 200.420 – 200.476).  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for State/Local Government-Wide Central Service CAPs*  (1) Verify that the central service CAP includes the required documentation in accordance with 2 CFR Part 200 Appendix V, paragraph E.  (2) *Testing of the State/Local Government-Wide Central Service CAPs – Allocated Section I Costs*  (a) If new allocated central service costs were added, review the justification for including the item as Section I costs to ascertain if the costs are allowable (e.g., if costs benefit Federal awards).  (b) Identify the central service costs that incurred a significant increase in actual costs from the prior year’s costs. Test a sample of transactions to verify the allowability of the costs.  (c) Ascertain if the bases used to allocate costs are appropriate, i.e., costs are allocated in accordance with relative benefits received.  (d) Ascertain if the proposed bases include all activities that benefit from the central service costs being allocated, including all users that receive the services. For example, the State-wide central service CAP should allocate costs to all benefiting State departments and agencies, and, where appropriate, non-State organizations, such as local government agencies.  (e) Perform an analysis of the allocation bases by selecting agencies with significant Federal awards to determine if the percentage of costs allocated to these agencies has increased from the prior year. For those selected agencies with significant allocation percentage increases, ascertain if the data included in the bases are current and accurate.  (f) Verify that carry-forward adjustments are properly computed in accordance with 2 CFR Part 200, Appendix V, paragraph G.3.  (3) *Testing of the State/Local Government-Wide Central Service CAPs – Billed Section II Costs*  (a) For billed central service activities accounted for in separate funds (e.g., internal service funds), ascertain if:  (i) Retained earnings/fund balances (including reserves) are computed in accordance with the cost principles;  (ii) Working capital reserves are not excessive in amount (generally not greater than 60 calendar days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs, and debt principal costs); and  (iii) Adjustments were made when there is a difference between the revenue generated by each billed service and the actual allowable costs.  (b) Test to ensure that all users of services are billed in a consistent manner. For example, examine selected billings to determine if all users (including users outside the governmental unit) are charged the same rate for the same service.  (c) Test that billing rates exclude unallowable costs, in accordance with the cost principles and Federal statutes.  (d) Test, where billed central service activities are funded through general revenue appropriations, that the billing rates (or charges) were developed based on actual costs and were adjusted to eliminate profits.  (e) For self-insurance and pension funds, ascertain if the fund contributions are appropriate for such activities as indicated in the current actuarial report.  (f) Determine if refunds were made to the Federal Government for its share of funds transferred from the self-insurance reserve to other accounts, including imputed or earned interest from the date of the transfer. |

### Allowable Costs – State Public Assistance Agency Costs

State public assistance agency costs are (1) defined as all costs allocated or incurred by the State agency except expenditures for financial assistance, medical vendor payments, and payments for services and goods provided directly to program recipients (e.g., day care services); and (2) normally charged to Federal awards by implementing the public assistance cost allocation plan (CAP). The public assistance CAP provides a narrative description of the procedures that are used in identifying, measuring, and allocating all costs (direct and indirect) to each of the programs administered or supervised by State public assistance agencies.

The 2 CFR Part 200, Appendix VI, paragraph A, states that, since the federally financed programs administered by State public assistance agencies are funded predominantly by HHS, HHS is responsible for the requirements for the development, documentation, submission, negotiation, and approval of public assistance CAPs. These requirements are specified in [45 CFR Part 95, Subpart E](45%20CFR%20Part%2095.pdf).

Major Federal programs typically administered by State public assistance agencies include: Temporary Assistance for Needy Families (AL 93.558), Medicaid (AL 93.778), Supplemental Nutrition Assistance Program (AL 10.561), Child Support Enforcement (AL 93.563), Foster Care (AL 93.658), Adoption Assistance (AL 93.659), and Social Services Block Grant (AL 93.667).

*(Source: 2022 OMB Compliance Supplement Part 3)*

#### Audit Objectives/Compliance Requirements and Control Tests Allowable Costs - State Public Assistance Agency Costs

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives – State Public Assistance Agency Costs**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

1. Determine whether the governmental unit complied with the provisions of 2 CFR Part 200 as follows:
   1. Direct charges to Federal awards were for allowable costs.
   2. Charges to cost pools allocated to federal awards through the public assistance CAP were for allowable costs.
   3. The approved public assistance CAP correctly describes the actual procedures used to identify, measure, and allocate costs to each of the programs operated by the State public assistance agency. However, the actual procedures or methods of allocating costs must be in accordance with the cost principles, and produce an equitable and consistent distribution of costs.
   4. Charges to federal awards are in accordance with the approved public assistance CAP. This does not apply if the auditor first determines that the approved CAP is not in compliance with the cost principles and/or produces an inequitable distribution of costs.
   5. The employee compensation reporting systems are implemented and operated in accordance with the methodologies described in the approved public assistance CAP.

**Compliance Requirements – State/Local Government-Wide Central Service Costs**

1. *Submission Requirements*

Unlike most State/local government-wide central service CAPs and ICRPs, an annual submission of the public assistance CAP is not required. Once a public assistance CAP is approved, State public assistance agencies are required to promptly submit amendments to the plan if any of the following events occur (45 CFR section 95.509):

* 1. The procedures shown in the existing CAP become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.
  2. A material defect is discovered in the CAP.
  3. The CAP for public assistance programs is amended so as to affect the allocation of costs.
  4. Other changes occur which make the allocation basis or procedures in the approved CAP invalid.

The amendments must be submitted to HHS for review and approval.

1. *Documentation Requirements* – A State may claim Federal financial participation for costs associated with a program only in accordance with its approved CAP. The public assistance CAP requirements are contained in 45 CFR section 95.507.
2. *Implementation of Approved Public Assistance CAPs* – Since public assistance CAPs are of a narrative nature, the Federal Government needs assurance that the CAP has been implemented as approved. This is accomplished by funding agencies’ reviews, single audits, or audits conducted by the cognizant agency for audit (2 CFR Part 200 Appendix VI, paragraph E.1).

*(Source: 2022 OMB Compliance Supplement Part 3)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

#### Suggested Compliance Audit Procedures – State Public Assistance Agency Costs

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| This may be applicable to public assistance programs at the local level  a. Since a significant amount of the costs in the public assistance CAP are allocated based on employee compensation reporting systems, it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.  b. *General Audit Procedures* – The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of 2 CFR 200.402 - 200.411.  (b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 200.420 - 200.476).  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for Public Assistance CAPs*  (1) Verify that the State public assistance agency is complying with the submission requirements, i.e., an amendment is promptly submitted when any of the events identified in [45 CFR 95.509](45%20CFR%20Part%2095.pdf) occur.  (2) Verify that public assistance CAP includes the required documentation in accordance with [45 CFR 95.507](45%20CFR%20Part%2095.pdf).  (3) *Testing of the Public Assistance CAP* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of the cost principles and produce an equitable distribution of costs. Appropriate detailed tests may include:  (a) Examining the results of the employee compensation system or in addition the records for employee compensation to ascertain if they are accurate, allowable, and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged.  (b) Since the most significant cost pools in terms of dollars are usually allocated based upon the distribution of income maintenance and social services workers’ efforts identified through random moment time studies, determining whether the time studies are implemented and operated in accordance with the methodologies described in the approved public assistance CAP. For example, verifying the adequacy of the controls governing the conduct and evaluation of the study, and determining that the sampled observations were properly selected and performed, the documentation of the observations was properly completed, and the results of the study were correctly accumulated and applied. Testing may include observing or interviewing staff who participate in the time studies to determine if they are correctly recording their activities.  (c) Testing statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation bases are reasonable, updated as necessary, and do not contain any material omissions.  (4) *Testing of Charges Based Upon the Public Assistance CAP* – If the approved public assistance CAP is determined to be in compliance with the cost principles and produces an equitable distribution of costs, verify that the methods of charging costs to Federal awards are in accordance with the approved CAP and the provisions of the approval documents issued by HHS. Detailed compliance tests may include:  (a) Verifying that the cost allocation schedules, supporting documentation and allocation data are accurate and that the costs are allocated in compliance with the approved CAP.  (b) Reconciling the allocation statistics of labor costs to employee compensation records (e.g., random moment sampling observation forms).  (c) Reconciling the allocation statistics of non-labor costs to allocation data, (e.g., square footage or case counts).  (d) Verifying direct charges to supporting documents (e.g., purchase orders).  (e) Reconciling the costs to the Federal claims. |

### Cost Principles for Nonprofit Organizations

If the federal program is an NPO, review the 2022 OMB compliance supplement [Allowable Costs/Cost Principles section](Cost%20Principles%20for%20Nonprofit%20Organizations.pdf). This section can be completed as an addendum to the FACCR, saved within your working papers and the cross referenced section can also be added on this page.

Cross Reference to the NPO Allowable cost principles testing: \_\_\_\_\_\_\_\_\_\_\_\_\_

*(Source: 2022 OMB Compliance Supplement Part 3)*

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## E. ELIGIBILITY

### OMB Compliance Requirements

The specific requirements for eligibility are unique to each Federal program and are found in the statutes, regulations, and the terms and conditions of the Federal award pertaining to the program. For programs listed in the Supplement, these specific requirements are in Part 4, “Agency Program Requirements,” or Part 5, “Clusters of Programs,” as applicable. This compliance requirement specifies the criteria for determining the individuals, groups of individuals (including area of service delivery), or subrecipients that can participate in the program and the amounts for which they qualify.

**Source of Governing Requirements**

The requirements for eligibility are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

**1. Eligibility for Individuals**

**HOME**

a. The HOME program has income targeting requirements. Only low- income or very low-income persons, as defined in 24 CFR section 92.2, can receive housing assistance (24 CFR section 92.1). Therefore, the participating jurisdiction must determine if each family is income eligible by determining the family’s annual income, including all persons in the household, as provided for in 24 CFR section 92.203. Participating jurisdictions must maintain records for each family assisted (24 CFR section 92.508).

b. HOME-assisted units in a rental housing project must be occupied only by households that are eligible as low-income families and must meet certain limits on the rents that can be charged. The requirements also apply to the HOME-assisted non-owner-occupied units in single-family (one–four unit) housing purchased with HOME funds. The maximum HOME rents, which include utilities or the utility allowance, are the lesser of the fair market rent for comparable units in the area, as established by HUD under 24 CFR section 888.111, or a rent that does not exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area as determined by HUD, with adjustments for the number of bedrooms. Rental projects with five or more units have additional rent limitations. Twenty percent of the HOME-assisted units must be occupied by very low-income families and meet one of the following rent requirements: (1) the rent does not exceed 30 percent of the annual income of a family whose income equals 50 percent of the median income for the area, as determined by HUD, with adjustments for larger or smaller families; or (2) the rent does not exceed 30 percent of the families adjusted income (24 CFR sections 92.216 and 92.252).

c. A participating jurisdiction may use HOME funds for tenant-based rental assistance, as provided for in 24 CFR section 92.209(b). The participating jurisdiction must select families in accordance with policies and criteria consistent with those provided in 24 CFR section 92.209(c).

**HOME-ARP**

a. HOME-ARP requires that funds be used to primarily benefit individuals and families that meet the following specified “qualifying populations.” Any individual or family who meets the criteria for these populations is eligible to receive assistance or services funded through HOME-ARP without meeting additional criteria (e.g., additional income criteria). All income calculations to meet income criteria of a qualifying population or required for income determination in HOME-ARP eligible activities must use the annual income definition in 24 CFR 5.609 in accordance with the requirements of 24 CFR 92.203(a)(1).

The following are the specified “qualifying populations” (see the HOME- ARP Implementing Notice for detailed definitions):

(1) Homeless, as defined in 24 CFR 91.5 Homeless (1), (2), or (3);

(2) At risk of homelessness, as defined in 24 CFR 91.5;

(3) [Fleeing or Attempting to Flee, Domestic Violence, Dating Violence, Sexual Assault, Stalking, or Human Tracking](https://www.govinfo.gov/content/pkg/FR-2013-08-06/pdf/2013-18920.pdf), as defined by HUD.

(4) Other Populations where providing supportive services or assistance under section 212(a) of NAHA (42 USC 12742(a)) would prevent the family’s homelessness or would serve those with the greatest risk of housing instability.

b. HOME-ARP-assisted units in a rental housing project must be occupied only by households of individuals and families that meet the definition of one or more of the qualifying populations described in Section IV.A of the HOME-ARP Implementing.

Occupancy Requirements –

• *Qualifying Households*. Units restricted for occupancy qualifying households must be occupied by households that meet the definition of qualifying population at the time of admission to the HOME-ARP unit. A qualifying household after admission retains its eligibility to occupy a HOME-ARP rental unit restricted for qualifying populations, irrespective of the qualifying household’s changes in income or whether the household continues to meet the definition of a qualifying population.

• *Low-Income Households*. At initial occupancy, units restricted for low-income households must be occupied by households that meet the definition of low-income in 24 CFR 92.2. If a tenant’s income increases above the applicable low-income limit during the compliance period, the unit will be considered temporarily out of compliance. Noncompliance requires the PJ to take action in accordance with the rent and unit mix requirements in Section VI.B.15 and VI.B.17 of the HOME-ARP Implementing Notice, respectively.

**2. Eligibility for Group of Individuals or Area of Service** **Delivery** - Not Applicable

**3. Eligibility for** **Subrecipients** - Not Applicable

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

No pass-through agency information noted.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

2. Determine whether required eligibility determinations were made (including obtaining any required documentation/verification), that individual program participants or groups of participants (including area of service delivery) were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program.

3. Determine whether subawards were made only to eligible subrecipients.

4. Determine whether amounts provided to or on behalf of eligible participants or groups of participants were calculated in accordance with program requirements.

*(Source: 2022 OMB Compliance Supplement Part 3)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. *Eligibility for Individuals*  a. For some Federal programs with a large number of people receiving benefits, the non-Federal entity may use a computer system for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and will be separate from the non-Federal entity’s regular financial accounting system. Typical functions that a computer system used for determining eligibility may perform are:  - Perform calculations to assist in determining who is eligible and the amount of benefits  - Pay benefits (e.g., write checks)  - Maintain eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments)  - Track the period of time during which an individual is eligible to receive benefits, i.e., from the beginning date of eligibility through the date when those benefits stop, generally at the end of a predetermined period, unless there is a redetermination of eligibility  - Perform matches with other computer databases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased)  - Control who is authorized to approve benefits for eligible individuals (e.g., an employee may be approving benefits on-line and this process may be controlled by passwords or other access controls)  - Produce exception reports indicating likely errors that need follow-up (e.g., when benefits exceed a certain amount, would not be appropriate for a particular classification of individuals, or are paid more frequently than normal)  Because of the diversity of computer systems, both hardware and software, it is not practical for this Supplement to provide suggested audit procedures to address each system. However, generally accepted auditing standards provide guidance for the auditor when computer processing relates to accounting information that can materially affect the financial statements being audited. Similarly, when eligibility is material to a major program, and a computer system is integral to eligibility compliance, the auditor should follow this guidance and consider the non-Federal entity’s computer processing. The auditor should perform audit procedures relative to the computer system for eligibility as necessary to support the opinion on compliance for the major program. Due to the nature and controls of computer systems, the auditor may choose to perform these tests of the computer systems as part of testing the internal controls for eligibility.  b. *Split Eligibility Determination Functions*  (1) *Background* – Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.  (2) Ensure that eligibility testing includes all benefit payments regardless of whether another entity, by arrangement, performs part of the eligibility determination functions.  c. Perform procedures to ascertain if the non-Federal entity’s records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).  d. Select a sample of individuals receiving benefits and perform tests to ascertain if  (1) The required eligibility determinations and redeterminations, (including obtaining any required documentation/verifications) were performed and the individual was determined to be eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both. Also, some programs require periodic redeterminations of eligibility, which should also be tested.)  (2) Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.  (3) Benefits were discontinued when the period of eligibility expired.  e. In some programs, the non-Federal entity is required to use a quality control process to obtain assurances about eligibility. Review the quality control process and perform tests to ascertain if it is operating to effectively meet the objectives of the process and in compliance with applicable program requirements.  2. *Eligibility for Group of Individuals or Area of Service Delivery –* ***Not Applicable***  3. *Eligibility for Subrecipients –* ***Not Applicable*** |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## J. PROGRAM INCOME

**Federal awarding agencies adopted/implemented the Uniform Guidance in 2 CFR Part 200. The OMB guidance is directed to Federal agencies and, by itself, does not establish regulatory requirements binding on non-federal entities. Throughout the FACCR 2 CFR Part 200 has been referenced, however in determining compliance auditors need to refer the applicable agency codification of 2 CFR Part 200. Auditors should review this** [**link**](Agency%20Adoption%20of%20the%20UG%20and%20Example%20Citations.pdf) **for a full discussion of agency adoption of the UG and how to cite non-compliance exceptions. Auditors will need to start with the agency codification of the UG when citing exceptions.**

**All references to sections within 2 CFR Part 200 can be found** [**here**](2%20CFR%20Part%20200.pdf)

### OMB Compliance Requirements

Program income is gross income earned by a non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance (unless there is a requirement for disposition of program income after the end of the period of performance as provided in 2 CFR 200.307(f)).

Program income (2 CFR 200.1\_Program\_Income) includes, but is not limited to income from:

* Fees for services performed,
* The use or rental of real or personal property acquired under Federal awards,
* The sale of commodities or items fabricated under Federal awards,
* License fees and royalties on patents and copyrights, except as provided below, and
* Principal and interest on loans made with Federal award funds.

Program income does not include:

* Interest earned on advances of Federal funds.
* Except as otherwise provided in Federal statutes, regulations or the terms and conditions of the Federal award, rebates, credits, discounts and interest earned on any of them.
* Taxes, special assessments, levies, fines, and other such revenues raised by a non-Federal entity, unless the Federal award or Federal awarding agency regulations specifically identify the revenues as program income (2 CFR 200.307(c)).
* The proceeds from the sale of equipment or real property acquired in whole or in part under the Federal award (2 CFR 200.307(d)).
* Royalties or income earned by an institution of higher education or a nonprofit organization on inventions conceived or first actually reduced to practice in the performance of work under a funding agreement with a Federal agency that is shared with the inventor (2 CFR 200.307(g); [37 CFR 401.2](37%20CFR%20401.2.pdf) and [401.14(k)](37%20CFR%20401.14.pdf); 35 USC 201(i), and 35 USC 202(c)(7)(B)).

If authorized by Federal regulations or the Federal award, costs incidental to the generation of program income may be deducted from gross income to determineprogramincome, provided those costs have not been charged to the Federal award (2 CFR 200.307(b)).

Program income may be used in any of the following three methods, consistent with 2 CFR 200.307(e):

1. Deduction.

Program income is deducted from total allowable costs in order to determine the net allowable costs, rather than to increase the funds committed to the project. This method must be used if the Federal awarding agency has given no prior approval for how program income is to be used and its regulations and the terms and conditions of the Federal award are silent on this matter. Where this method is used, program income must be applied to current costs unless the Federal awarding agency authorizes otherwise (2 CFR 200.307(e)(1)).

2. *Addition*.

With prior approval of the Federal awarding agency, program income may be added to the Federal award by the Federal agency and the non-Federal entity. This method must be used for Federal awards to institutions of higher education and nonprofit research institutions if the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award how program income is to be used (2 CFR 200.307(e)(2)).

3. *Cost Sharing or Matching*.

With prior approval of the Federal awarding agency, program income may be used to meet the cost sharing or matching requirement of the Federal award. The amount of the Federal award remains the same (2 CFR 200.307(e)(3)).

Unless Federal awarding agency regulations or the terms and conditions of the Federal award specify otherwise, non-Federal entities have no obligation to the Federal government regarding program income earned after the end of the period of performance (2 CFR 200.307(f)).

**Source of Governing Requirements**

The requirements that apply to program income are contained in 2 CFR 200.1\_Program\_Income (definition of “program income”), 2 CFR 200.307 (program income), program legislation, Federal awarding agency regulations, and the terms and conditions of the Federal award.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

The most recent compilation of agency additions and exceptions is provided on the CFO website here: <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014. AOS evaluated agency exceptions through June 2022. AOS auditors only will need to reference our internal AOS evaluation process [at the following link](https://ohauditor.sharepoint.com/sites/Intranet/Shared%20Documents/Forms/AllItems.aspx?FolderCTID=0x0120002FFBFB1F4A3C3F47AE37C7A44E1C1EDE&id=%2Fsites%2FIntranet%2FShared%20Documents%2FAudit%5FResources%2FFederal%2FOther%20Federal%20Resources&viewid=68cb3ab2%2D567e%2D456a%2D975c%2Da88f3e9c3727).

**Part 4 OMB Program Specific Requirements**

**HOME**

When program income is generated by housing that is only partially assisted with HOME funds or matching funds, the income must be prorated to reflect the percentage of HOME funds used. Program income includes, but is not limited to, the following:

1. Proceeds from the disposition by sale or long-term lease of real property acquired, rehabilitated, or constructed with HOME funds or matching contributions;

2. Gross income from the use or rental of real property owned by the participating jurisdiction, state recipient, or a subrecipient, that was acquired, rehabilitated, or constructed with HOME funds or matching contributions, less costs incidental to generation of the income (program income does not include gross income from the use, rental or sale of real property received by the project owner, developer, or sponsor, unless the funds are paid by the project owner, developer, or sponsor to the participating jurisdiction, subrecipient or state recipient);

3. Payments of principal and interest on loans made using HOME funds or matching contributions;

4. Proceeds from the sale of loans made with HOME funds or matching contributions;

5. Proceeds from the sale of obligations secured by loans made with HOME funds or matching contributions;

6. Interest earned on program income pending its disposition; and

7. Any other interest or return on the investment permitted under 24 CFR section 92.205(b) of HOME funds or matching contributions (24 CFR sections 92.2 and 92.505).

**HOME-ARP**

Program income earned as a result of the use of HOME-ARP funds is HOME program income and must be used in accordance with the requirements of 24 CFR Part 92.

Program income includes, but is not limited to, principal and interest payments from a loan made with HOME-ARP funds, or other income or fees received from project owners in connection with HOME-ARP funds, and interest earned by the PJ on program income before disposition.

The participating jurisdiction must retain the funds in their HOME-ARP Investment Trust Fund local account (local account) and enter the program income into IDIS as HOME program income, and also must subgrant the program income to the state recipient or subrecipient that retained the program income.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

**Ohio Department of Development**

Program Income is the gross income received by a unit of general local government directly generated from the use of Ohio State Administered CDBG Program funds.

A. CDBG Program Income includes, but is not limited to the following:

i. Proceeds from the sale or lease of real property purchased or improved with CDBG funds;

ii. Proceeds from the sale or lease of equipment purchased or improved with CDBG funds;

iii. Gross income from the use or rental of real or personal property acquired, constructed or improved by a unit of general local government, less costs incidental to the generation of income;

iv. Receipt of payments of principal and interest on loans made using CDBG funds;

v. Interest earned on Program Income pending its disposition; and

vi. Funds collected through special assessments on properties not owned and occupied by Low- to Moderate-Income (LMI) households in order to recover the CDBG portion of a public improvement.

**NOTE**: Program Income generated by an activity partially assisted with CDBG funds shall be prorated to reflect the percentage of CDBG funds invested in the activity.

B. CDBG Program Income does not include:

i. Any income received in a single program year by a unit of general local government that does not exceed $25,000 with the exception of the receipt of principal and interest on loans funded through a CDBG revolving loan fund;

ii. Income generated by certain Section 108 activities (refer to 24 CFR 570.500(a)(4)(ii);

iii. Proceeds from unit of general local government fundraising activities;

iv. Funds collected through special assessments to recover non-CDBG outlays of capital improvements; and

v. Proceeds from the disposition of real property by a unit of general local government that was acquired or improved with CDBG funds five years after:

* + the termination of the unit of general local government grant agreement;
  + the termination of the revolving loan fund administration agreement; or
  + the loss of designation as a direct recipient of the Community Development Allocation Program. (Certain conditions apply. Refer to §570.503(b)(8).)

vi. Income earned from the investment of initial proceeds of a grant advance from the U.S. Treasury, except interest earned:

* + on lump sum drawdowns;
  + from the investment of the initial proceeds of a grant advance;
  + on activities determined to be ineligible; and
  + on the investment of amounts reimbursed to the CDBG program account prior to the use of the reimbursed funds for eligible purposes.

*(Source:* [*ODOD OCD Program Policy Notice OCD 15-04*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1tW/kGPMLVU1oMsjqXdt1hy1w5oLQ6o6d.r41KNpxWNYWh8) *- Program Income/Revolving Loan Fund Administration)*

The Grant Operations and Financial Management Policy and Procedures states the following:

Program Income

As outlined in 2 CFR 200.307(d), proceeds from the disposition of property, equipment, or supplies are not program income. Please refer to [OCD Program Policy 15-04](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1tW/kGPMLVU1oMsjqXdt1hy1w5oLQ6o6d.r41KNpxWNYWh8) for the specific requirements governing program income.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*)*

Program Income

Program income is gross income received by a grantee that is directly generated from the use of OCD- administered funds distributed by the state. As outlined at 2 CFR 200.307(d), proceeds from the disposition of property, equipment, or supplies are not program income. Please refer to OCD Program Policy 15-04 for the specific requirements governing program income.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk) *Page 6)*

For additional information, see the Ohio Consolidated Plan at <https://development.ohio.gov/community/community-resources/ohio-consolidated-plan>.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

2. Determine whether program income is correctly determined, recorded, and used in accordance with applicable governing requirements.

*(Source: 2022 OMB Compliance Supplement Part 3)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. *Identify Program Income*  a. Review the statutes, regulations, and terms and conditions of the Federal award applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.  b. Inquire of management and review accounting records to ascertain if program income was received.  2. *Determining or Assessing Program Income* – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that amounts collected were classified as program income only if collected from allowable sources.  3. *Recording of Program Income* – Perform tests to verify that all program income was properly recorded in the accounting records.  4. *Use of Program Income* – Perform tests to ascertain if program income was used in accordance with 2 CFR 200.307(e) and the program requirements set by the Federalawarding agency in its regulations and the terms and conditions of the award. |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## M. SUBRECIPIENT MONITORING – Not Applicable at Local Level

Per [OCD Policy Notice OCD 15-01](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1tW/kGPMLVU1oMsjqXdt1hy1w5oLQ6o6d.r41KNpxWNYWh8), OCD ODSA does not permit subgranting of funds or subrecipient agreements with other local governments or agencies. Please contact CFAE if you have a client that appears to have subgranted the funds down to another local government or agency.

## N. SPECIAL TESTS AND PROVISIONS – Wage Rate Requirements

### OMB Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4, “Agency Program Requirements.” or Part 5. “Clusters of Programs.” For programs not included in this Supplement, the auditor must review the program’s contract and grant agreements and referenced statutes and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, both for programs included and not included in this Supplement, the auditor must identify any additional compliance requirements which are not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on compliance with the requirements of that major program shall be included in the audit.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

Contracts for the construction of affordable housing with 12 or more HOME-assisted units are required to comply with the Wage Rate Requirements (42 USC 12836).

Regarding HOME-ARP funds: The same wage rate requirements apply.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

***US Department of Transportation Crosscutting Information:***

All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141–3144, 3146, and 3147.

Nonfederal entities shall include in their construction contracts subject to the Wage Rate Requirements (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR Part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6; the A-102 Common Rule (section 36(i)(5)); OMB Circular A-110 (2 CFR Part 215, Appendix A, Contract Provisions); **2 CFR Part 176, Subpart C**; and 2 CFR section 200.326).

This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1235-0008*). The DOL, Employment Standards Administration, maintains a Davis-Bacon and Related Acts webpage (<https://www.dol.gov/agencies/whd/government-contracts/construction> ). Optional Form WH-347 and instructions are available on this web page.

*(Source: 2022 OMB Compliance Supplement Department of Transportation Crosscutting Procedures)*

### Additional Program Specific Information

No pass-through agency information noted.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2022 OMB Compliance Supplement Part 3)*

***US Department of Transportation Crosscutting Information:***

Determine whether the nonfederal entity notified contractors and subcontractors of the requirements to comply with the Wage Rate Requirements and obtained copies of certified payrolls.

*(Source: 2022 OMB Compliance Supplement Department of Transportation Crosscutting Procedures)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| Select a sample of construction contracts and subcontracts greater than $2,000 that are covered by the Wage Rate Requirements and perform the following procedures:  a. Verify that the required prevailing wage rate clauses were included in the contract or subcontract.  b. For each week in which work was performed under the contract or subcontract, verify that the contractor or subcontractor submitted the required certified payrolls.  (**Note**: Auditors are not expected to determine whether prevailing wage rates were paid.) |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N. SPECIAL TESTS AND PROVISIONS – Maximum Per-Unit Subsidy

### OMB Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4, “Agency Program Requirements.” or Part 5. “Clusters of Programs.” For programs not included in this Supplement, the auditor must review the program’s contract and grant agreements and referenced statutes and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, both for programs included and not included in this Supplement, the auditor must identify any additional compliance requirements which are not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on compliance with the requirements of that major program shall be included in the audit.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

The per-unit investment of HOME funds may not exceed the Federal Housing Administration (FHA) mortgage limits in Subsection 221(d)(3) of the National Housing Act, including any area-wide high cost exceptions approved by HUD. This information should be available from the grantee or the local HUD field office. In mixed-income or mixed-use projects, the average per-unit investment in HOME-assisted units may not exceed the applicable Subsection 221(d)(3) (i.e., 234) limit.

**Note:** The maximum per-unit subsidy limits established in NAHA do not apply to HOME-ARP units. Participating jurisdictions may pay up to 100 percent of the eligible and reasonable HOME-ARP costs allocated to a HOME-ARP unit, including operating cost assistance associated with units restricted for occupancy by qualifying households. All costs paid by HOME-ARP funds must comply with the [HOME-ARP Implementing Notice](https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-10cpdn.pdf) requirements and the Cost principles at 2 CFR Part 200 Subpart E of the Uniform Administrative Requirements, as amended.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

No pass-through agency information noted.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2022 OMB Compliance Supplement Part 3)*

Determine whether the grantee performs the required analysis to ensure that the per-unit investment of HOME funds being provided does not exceed the FHA mortgage limits in Subsection 221(d)(3).

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| Review a sample of projects to verify that the HOME per-unit investment amounts are supported by the participating jurisdiction’s records. |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N. SPECIAL TESTS AND PROVISIONS – Underwriting Requirements

### OMB Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4, “Agency Program Requirements.” or Part 5. “Clusters of Programs.” For programs not included in this Supplement, the auditor must review the program’s contract and grant agreements and referenced statutes and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, both for programs included and not included in this Supplement, the auditor must identify any additional compliance requirements which are not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on compliance with the requirements of that major program shall be included in the audit.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

**HOME**

Participating jurisdictions are required to evaluate each housing project in accordance with guidelines that it adopts to ensure that the combination of federal assistance to the project is not any more than is necessary to provide affordable housing that is financially viable. Prior to the commitment of HOME funds to a project, participating jurisdictions must evaluate the project in accordance with guidelines that it has adopted, which must include (a) an examination of the sources and uses of funds for the project and a determination that the costs are reasonable; (b) an assessment of the current market demand in the neighborhood in which the project will be located; (c) an assessment of the experience and financial capacity of the developer; and (d) an assessment of the firm written financial commitments for the project (24 CFR section 92.250).

**HOME-ARP**

HOME-ARP must have standardized guidelines that include the following.

• Examination of the source and uses of funds for the project and a determination that costs are necessary and reasonable. The Participating jurisdiction must determine the amount of HOME-ARP development subsidy required to fill the gap between other committed funding sources and the cost to develop the project.

• A demonstration of unmet need among qualifying populations for the type of housing proposed.

• Market assessment is necessary if project contains units restrict for low-income or market-rate households per 24 CFR 92.250(b)(2).

• Documented review of the developer’s experience and financial capacity are satisfactory based on the size and complexity of the project.

• Firm written financial commitments for the project.

• Review of the operating budget especially as it pertains to the operating cost assistance during the compliance period of the project.

• Overall assessment of the project viability thought the compliance period.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

No pass-through agency information noted.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2022 OMB Compliance Supplement Part 3)*

Determine whether the grantee performs the required analysis to ensure that HOME subsidies being provided are not more than necessary to provide affordable housing and that such analysis appears reasonable and is properly supported.

Determine whether the grantee performs the required analysis to ensure that HOME-ARP underwriting guidelines are followed, and that such analysis appears reasonable and is properly supported.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| **HOME**   1. Review a sample of projects to verify that the HOME subsidy amounts are supported by the participating jurisdiction’s records. 2. Review participating jurisdiction records to verify that each housing project was evaluated in accordance with its guidelines and to ensure that the combination of federal assistance to the project is not any more than is the FHA mortgage limits in Subsection 221(d)(3) (i.e., 234) of the National Housing Act necessary to provide affordable housing.   **HOME-ARP**   1. Review a sample of projects to verify that the HOME-ARP document list and analysis included in ‘Part 4 OMB Program Specific Requirements’ are included in the participating jurisdiction’s records. |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N. SPECIAL TESTS AND PROVISIONS – Drawdowns of HOME/HOME-ARP Funds

### OMB Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4, “Agency Program Requirements.” or Part 5. “Clusters of Programs.” For programs not included in this Supplement, the auditor must review the program’s contract and grant agreements and referenced statutes and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, both for programs included and not included in this Supplement, the auditor must identify any additional compliance requirements which are not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on compliance with the requirements of that major program shall be included in the audit.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

The Integrated Disbursement and Information System (IDIS) is used both to collect information on compliance with program requirements and to disburse HOME funds to local jurisdictions (24 CFR section 92.502).

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

No pass-through agency information noted.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2022 OMB Compliance Supplement Part 3)*

Determine whether the drawdowns of HOME funds using IDIS (HOME payment certification amounts) are supported by local jurisdiction records.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| Verify that HOME/HOME-ARP payment certification amounts match the amount of the local jurisdiction’s expenditures to support the drawdown request. |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N. SPECIAL TESTS AND PROVISIONS – Housing Quality Standards

### OMB Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the statutes, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4, “Agency Program Requirements.” or Part 5. “Clusters of Programs.” For programs not included in this Supplement, the auditor must review the program’s contract and grant agreements and referenced statutes and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, both for programs included and not included in this Supplement, the auditor must identify any additional compliance requirements which are not based in statute or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on compliance with the requirements of that major program shall be included in the audit.

*(Source: 2022 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

During the period of affordability (i.e., the period for which the nonfederal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than (a) every three years for projects containing one to four units, (b) every two years for projects containing five to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME/HOME-ARP-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.209(i), 92.251(f), and 92.504(d)).

Regarding HOME**-**ARP funds: the rental units must comply with the same requirements as HOME per 24 CFR 92.251 for (a) new construction, (b)rehabilitation projects, (c)(1) and (2) acquisition of standard housing, (e) manufactured housing, and (f) on-going property condition standards.

**Note:** Requirements for the ongoing inspections of HOME-assisted rental housing were established by the HOME rule, published July 24, 2013.These requirements will become effective upon publication of a notice by HUD, which further sets forth these requirements. Once effective, the requirements for completion and ongoing inspections of HOME rental housing must comply with the requirements set forth at 24 CFR 92.504(d)(1).

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

### Additional Program Specific Information

No pass-through agency information noted.

### Audit Objectives and Control Testing

**Please see the following guidance links applicable to this section:**

* [Part 6](OMB_Part%206.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/Shared%20Documents/Framework-Executive-Summary.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)

**Audit Objectives**

Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2022 OMB Compliance Supplement Part 3)*

Determine whether the grantee performs the required inspections to ensure that property standards are met.

*(Source: 2022 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development AL 14.239 HOME Investment Partnerships Program)*

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| **What Control Procedures Address the Compliance Requirement (reference/link to documentation or where the testing was performed):** |
| **Basis for the control** (reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors):  **Control Procedure** (description of how auditee uses the “Basis” to prevent, or identify and correct or detect errors):  **Person(s) responsible for performing the control procedure** (title):  **Description of evidence documenting the control was applied** (i.e. sampling unit): |

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Verify through a review of documentation that the nonfederal entity identifies those units on which housing quality inspections are due. 2. Verify through a review of documentation that the nonfederal entity performs inspections of units and that any needed repairs are completed timely. |

### Audit Implications Summary

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| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, material non-compliance and management letter comments)** |
| 1. **Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)** 2. **Assessment of Control Risk:** 3. **Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:** 4. **Results of Compliance (Substantive Tests) Tests:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## Program Testing Conclusion

We have performed procedures sufficient to provide reasonable assurance for federal award program compliance requirements (to support our opinions). The procedures performed, relevant evidence obtained, and our conclusions are adequately documented. (If you are unable to conclude, prepare a memo documenting your reason and the implications for the engagement, including the audit reports.)

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| **Conclusion** | | |
| **The opinion on this major program should be:** | |  |
| **Unmodified:** |  | |
| **Qualified (describe):** |  | |
| **Adverse (describe):** |  | |
| **Disclaimer (describe):** |  | |

Per paragraph 13.39 of the **AICPA Single Audit Guide[Permalink to here](https://checkpoint.riag.com/app/view/docPermaLink?DocID=iAICPAIGS:767.2440&docTid=T0AICPAIGS:767.2440-1&feature=ttoc&lastCpReqId=97899&tlltype=AICPAIGS:767.2668)**, the **following are required to be reported** as audit findings in the federal awards section of the schedule of findings and questioned costs **(2 CFR 200.516):**

1. Significant deficiencies and material weaknesses in internal control over major programs.
2. Material noncompliance with the federal statues, regulations, or the terms and conditions of federal awards related to a major program.
3. Known questioned costs that are greater than $25,000 for a type of compliance requirement for a major program. The auditor also must report (in the schedule of findings and questioned costs) known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program.
4. Known questioned costs that are greater than $25,000 for programs that are not audited as major.
5. Known or likely fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs.
6. Significant instances of abuse relating to major programs.
7. The circumstances concerning why the opinion in the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs (for example, a scope limitation that is not otherwise reported as a finding).
8. Instances in which the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with 2 CFR 200.511(b) of the Uniform Guidance, materially misrepresents the status of any prior audit finding.

[Appendix I](2%20CFR%20Part%20200.pdf) lists block grants and other programs excluded from the requirements of specified portions of 2 CFR Part 200.

[Appendix II](OMB_Appendix%20II.pdf) provides regulatory citations for Federal agencies’ codification of the OMB guidance on “Uniform Administrative Requirements, Cost Principles, and Audit Requirements” (in 2 CFR Part 200).

All departments and agencies other than the following have OMB-approved exceptions as part of their adoption/implementation: Departments of Commerce, Homeland Security, Housing and Urban Development, and Veterans Affairs; Gulf Coast Restoration Council; Institute of Museum and Library Services; National Endowments for the Arts and Humanities; Office of National Drug Control Policy; and Social Security Administration. The complete list of exceptions is available at <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf> and Appendix II of the OMB Compliance Supplement.

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| **Cross-reference to internal control matters (significant deficiencies or material weaknesses), if any, documented in the FACCR:** |
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| **Cross-reference to questioned costs and matter of noncompliance, if any, documented in this FACCR:** |
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**Per paragraph 13.50 of the AICPA Single Audit Guide,** the schedule of findings and questioned costs must include all audit findings required to be reported under the Uniform Guidance. A separate written communication (such as a communication sometimes referred to as a management letter) may not be used to communicate such matters to the auditee in lieu of reporting them as audit findings in accordance with the Uniform Guidance. See the discussion beginning at paragraph 13.34 for information on Uniform Guidance requirements for the schedule of findings and questioned costs. If there are other matters that do not meet the Uniform Guidance requirements for reporting but, in the auditor's judgment, warrant the attention those charged with governance, they should be communicated in writing or verbally. If such a communication is provided in writing to the auditee, there is no requirement for that communication to be referenced in the Uniform Guidance compliance report. Per table 13-2 **a matter must meet the following in order to be communicated in the management letter:**

* Other deficiencies in internal control over compliance that are not significant deficiencies or material weaknesses required to be reported but, in the auditor's judgment, are of sufficient importance to be communicated to management.
* Noncompliance with federal statutes, regulations or terms and conditions of federal awards related to a major program that does not meet the criteria for reporting under the Uniform Guidance but, in the auditor's judgment, is of sufficient importance to communicate to management or those charged with governance.
* Other findings or issues arising from the compliance audit that are not otherwise required to be reported but are, in the auditor's professional judgment, significant and relevant to those charged with governance.

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| **Cross-reference to any Management Letter items and explain why not included in the Single Audit Compliance Report:** |
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