**Federal Awards Compliance Audit Guidance and Testing**

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

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution |
| **AL#:** | 93.498 |

**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.**

**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****).**

**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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**On the table of contents page, users can also click on listed sections to go directly to that section. Please note that as information is added into the unrestricted portions of the FACCRs, page numbering can change and won’t necessarily reflect the footer page numbers. The table of contents can be updated to reflect the proper footer page numbers by clicking on word “contents” directly above the line starting with Important Information, which will bring up the icon “update table”. Clicking on the update table icon will allow users to update the page numbers to reflect current footer page numbers.**

# 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

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| --- |
| **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** | No |  |  |  |  |  |  |  |  |
| **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** | No |  |  |  |  |  |  |  |  |
| **K** |   | ***RESERVED*** |  |  |  |  |  |  |  |  |  |
| **L** |   | **Reporting** | Yes |  | N |  |  |  |  |  | *5%* |
| **M** |   | **Subrecipient Monitoring** | No |  |  |  |  |  |  |  |  |
| **N** |   | **Special Tests & Provisions**  | No |  |  |  |  |  |  |  |  |

**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

***Note***: This program is considered a “higher risk” program for 2022, pursuant to 2 CFR section 200.519(c)(2). Refer to the “Programs with Higher Risk Designation” section of Part 8, Appendix IV, Internal Reference Tables, for a discussion of the impact of the “higher risk” designation on the major program determination process.

### I. Program Objectives

The PRF and ARP Rural Distribution are administered by the Health Resources and Services Administration (HRSA) and support eligible health care providers in the battle against the COVID-19 pandemic. PRF provides relief funds to eligible providers of health care services and support for health care-related expenses or lost revenues attributable to coronavirus. ARP Rural Distribution addresses the disproportionate impact that COVID-19 has had on rural communities and rural health care providers. PRF and ARP Rural Distribution recipients must only use payments for eligible expenses, including services rendered, and lost revenues during the period of availability, as outlined in the table below. Providers must use a consistent basis of accounting to determine expenses. PRF and ARP Rural Distribution recipients may use payments for eligible expenses incurred prior to receipt of those payments (i.e., pre-award costs) dating back to January 1, 2020, so long as they are to prevent, prepare for, and respond to coronavirus.



*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

### II. Program Procedures

The PRF and ARP Rural Distribution include the following components and may include additional components established after the date of this Supplement:

For the first phase of the PRF General Distributions, money was distributed proportionate to providers’ share of Medicare fee-for-service reimbursements in 2019. A portion of providers were automatically sent an advance payment based off the revenue data they submit in CMS cost reports. Providers without adequate cost report data on file needed to submit their revenue information to the General Distribution Portal for additional funds.

For the second and third phases of the PRF General Distribution, Medicaid, Children’s Health Insurance Program (CHIP), dental, assisted living, and behavioral health providers were eligible to apply for funds, along with Medicare providers paid under Phase 1 who qualified to receive additional funds.

For the fourth phase of the PRF General Distribution, consistent with the requirements included in the Coronavirus Relief and Response Supplemental Appropriation (CRRSA) Act (Pub. L. No. 116-260), PRF Phase 4 payments were based on providers’ changes in operating revenues and expenses from July 1, 2020 to March 31, 2021. Phase 4 also included new elements specifically focused on equity, including reimbursing smaller providers for their changes in operating revenues and expenses at a higher rate compared to larger providers, and bonus payments based on the amount of services providers furnish to Medicaid/CHIP and Medicare beneficiaries. In addition, eligible applicants applied for the ARP Rural funds through the same Application and Attestation Portal that was available to apply for the Phase 4 General Distribution.

Funding for high-impact areas was distributed to hospitals in areas that were particularly impacted by the COVID-19 outbreak based on submission of the hospital’s: Tax Identification Number, National Provider Identifier, total number of Intensive Care Unit beds as of April 10, 2020 and June 10, 2020, and total number of admissions with a positive diagnosis for COVID-19 from January 1, 2020 to April 10, 2020, and January 1, 2020 to June 10, 2020.

Funding for Indian Health Service/Tribal facilities was distributed on the basis of operating expenses. Prior to the availability of ARP Rural funding, funding for rural providers was distributed on the basis of operating expenses.

Funding for safety net hospitals was based on Centers for Medicare & Medicaid Services (CMS) cost report data.

Funding for children’s hospitals was based on patient service revenue.

Funding for skilled nursing facilities and nursing homes was primarily based on the number of certified beds in the facility, and for the Nursing Home Infection Control Quality Incentive Program payments, data submission to the Centers for Disease Control and Prevention’s (CDC) National Healthcare Safety Network (NHSN) Long-term Care Facility Component COVID-19 Module.

Most payments were sent out to providers without application, with requirement for recipients to accept the terms and conditions through an online portal or return funds. The Assistance Listing numbers were not provided at time of payments or included in initial terms and conditions.

*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

### III. Source of Governing Requirements

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (Pub. L. No. 116-136, 134 Stat. 563)

Paycheck Protection Program and Health Care Enhancement Act (PPPHCA) (Pub. L. No. 116- 139, 134 Stat. 622)

Coronavirus Relief and Response Supplemental Appropriations (CRRSA) Act (Pub. L. No. 116- 260)

The American Rescue Plan Act (ARPA) (Pub. L. No. 117-2)

Under the definition of federal financial assistance, PRF and ARP Rural Distributions are considered other financial assistance. Per the applicability table in 45 CFR section 75.101(b)(1), other financial assistance is not subject to the post federal award or cost principles requirements in 45 CFR Part 75, subparts C, D, and E, respectively, with the exception that 45 CFR section 75.303 (Internal Controls) and sections 75.351 through 75.353 (Subrecipient Monitoring and Management) are applicable.

Under the terms and conditions of the award, PRF and ARP Rural Distributions are subject to 45 CFR section 75.302 (Financial management and standards for financial management systems) and 45 CFR sections 75.361 through 75.365 (Record Retention and Access).

Additionally, under the terms and conditions of the award, PRF (Phase 4) and ARP Rural Distributions are subject to 45 CFR section 75.371 (Remedies for non-compliance) and 45 CFR sections 75.305(b)(8).

*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

### IV. Other Information

**Availability of Other Program Information**

Provider Relief Fund Reporting Portal <https://prfreporting.hrsa.gov/s/>

Assistance Listing for PRF and ARP Rural Distribution <https://sam.gov/fal/7886e62bcc404c008669faf8227ffb6a/view>

The following webpages provide additional information about the PRF:

Provider Relief Fund General Information <https://www.hrsa.gov/provider-relief/>

Provider Relief Fund Frequently Asked Questions <https://www.hrsa.gov/provider-relief/faq/general>

General Distributions

Phase 1

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-provider-relief-30-b.pdf>

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-provider-relief-20-b.pdf>

Phase 2

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-phase-2-general-distribution-relief-fund.pdf>

Phase 3

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-phase-3-general-distribution-relief-fund.pdf>

Phase 4

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-phase-4-general-distribution-relief-fund.pdf>

Targeted Distribution

COVID-19 High-Impact Payments

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-high-impact-relief-fund.pdf>

Rural Payments

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-rural-relief-fund.pdf>

Skilled Nursing Facilities and Nursing Homes Payments <https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-skilled-nursing-facility-relief-fund.pdf>

<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/provider-relief-fund-nf-infection-control-payment-terms-and-conditions.pdf>

Tribal Hospitals, Clinics, and Urban Health Centers Payments <https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-indian-health-service-relief-fund.pdf>

Safety Net Hospital and Children’s Hospital Distributions <https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-safety-net-relief-fund.pdf>

The following websites provide additional information about the ARP Rural Distribution <https://www.hrsa.gov/provider-relief/future-payments/phase-4-arp-rural>

ARP Rural Distribution Terms and Conditions <https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/terms-and-conditions-ARP-rural.pdf>

**Additional Information**

**Note**: Since the PRF and ARP Rural Distribution amounts to be reported on a recipient’s Schedule of Expenditures of Federal Awards (SEFA) are based on the PRF report (see Other Information below), and the PRF report is to be tested as part of the Reporting compliance requirement, auditors should consider delaying the commencement of the compliance audit of the PRF and ARP Rural Distribution program until recipients have completed the PRF report.

1. *Webpage Guidance*

Guidance documents accessed by links on the HRSA.gov website such as those listed under “Availability of Other Program Information” are provided only to clarify the applicable laws, regulations, and terms and conditions of the award and do not create new compliance requirements. However, nonfederal entities in substantial compliance with the guidance applicable in these guidance documents are considered in compliance with the underlying compliance requirements.

1. *Schedule of Expenditures of Federal Awards (SEFA) Reporting*

SEFA reporting amounts for this program (including both expenditures and lost revenues) are based upon the PRF report that is required to be submitted to the HRSA reporting portal (described in “L.3 Special Reporting;” <https://prfreporting.hrsa.gov/s/>). Therefore, it is first important to understand the HRSA PRF and ARP Rural Distribution reporting requirements, which are summarized in the following table.

For the PRF and Rural Distribution it is the last day a provider can use the funds (end of the period of availability), which drives inclusion of the PRF amount on the Schedule of Expenditures for Federal Awards (SEFA) in a Single Audit report.



**Summary of SEFA Reporting of PRF for Fiscal Year Ends (FYEs) Covered by the 2022 Compliance Supplement**

For FYEs of June 30, 2022, and through FYEs of December 30, 2022 recipients should report in the SEFA, the expenditures and lost revenues from the Period 2 and Period 3 PRF report.

For a FYE of December 31, 2022 and through FYEs of June 29, 2023, recipients should report in the SEFA, the expenditures and lost revenues from both the Period 3 and Period 4 PRF reports.

For FYEs on or after June 30, 2023, SEFA reporting guidance related to Period 4 and Period 5 will be provided in covered under the 2023 Compliance Supplement.

1. *Defining the Entity to be Audited*

The reporting entity required for PRF and ARP Rural Distribution reporting purposes may not align to the reporting entity as defined for financial reporting purposes. It is important to note that the required PRF level of reporting has no bearing on the application of the requirements in 2 CFR 200.514 for defining the entity to be audited for single audit purposes. Thus, for single audits that include PRF and ARP Rural Distribution, the Single Audit must cover the entire operations of the auditee, or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered federal awards during such audit period, provided that each such audit must encompass the financial statements and schedule of expenditures of federal awards for each such department, agency, and other organizational unit, which must be considered to be a nonfederal entity.

As a best practice, the recipients may wish to include a footnote disclosure on the SEFA to identify which providers by TIN are included in the audit.

*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

# Part II – Pass through Agency and Grant Specific Information

**This section should contain introductory program specific information that is applicable to the program AL being tested from and contained within the individual grant agreement.**

### Program Overview

### Testing Considerations

### Reporting

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 (All distributions except Skilled Nursing Facility Infection Control Distribution)*

*Law (Pub. L. No. 116-136, 134 Stat. 563 and Pub. L. No. 116-139, 134 Stat. 622 and 623, Pub. L. No. 117-2)*

To prevent, prepare for, and respond to coronavirus and COVID-19, domestically or internationally, for necessary expenses to reimburse, through grants or other mechanisms, eligible health care providers for health care related expenses or lost revenues that are attributable to coronavirus. (Note: Auditors are not expected to test the funding reported as lost revenues to determine if it was expended only for federally defined allowable activities.)

That funds appropriated under this paragraph in this Act shall be available for building or construction of temporary structures, leasing of properties, medical supplies and equipment, including personal protective equipment and testing supplies, increased workforce and trainings, emergency operation centers, retrofitting facilities, and surge capacity.

Payment means a pre-payment, prospective payment, or retrospective payment.

*Terms and Conditions*

1. The recipient certifies that the payment will only be used to prevent, prepare for, and respond to coronavirus and COVID-19, and that the payment shall reimburse the recipient only for health care related expenses or lost revenues that are attributable to coronavirus and COVID-19.
2. The recipient certifies that retaining the payment for at least 90 days without contacting HHS regarding remittance of those funds, is deemed to have accepted the Terms and Conditions.
3. The recipient must provide or have provided after January 31, 2020, diagnoses, testing, or care for individuals with possible or actual cases of COVID-19. The Department of Health and Human Services (HHS) broadly views every patient as a possible case of COVID-19.
4. *Activities Allowed (Skilled Nursing Facility Infection Control Distribution)*

*Terms and Conditions*

Funds may only be used to reimburse the recipient for costs associated with the following items and services (“Infection Control Expenses”):

1. Costs associated with administering COVID-19 testing, which means an in vitro diagnostic test defined in section 809.3 of title 21, *Code of Federal Regulations* (or successor regulations) for the detection of SARS-CoV-2 or the diagnosis of the virus that causes COVID-19, and the administration of such a test, that:
	* Is approved, cleared, or authorized under section 510(k), 513, 515, or 564 of the Federal Food, Drug, and Cosmetic Act (21 USC 360(k), 360c, 360e, 360bbb-3);
	* The developer has requested, or intends to request, emergency use authorization under section 564 of the Federal Food, Drug, and Cosmetic Act (21 USC 360bbb-3), unless and until the emergency use authorization request under such section 564 has been denied or the developer of such test does not submit a request under such section within a reasonable timeframe;
	* Is developed in and authorized by a state that has notified the secretary of HHS of its intention to review tests intended to diagnose COVID-19; or
	* Other test that the secretary determines appropriate in guidance.
2. Reporting COVID-19 test results to local, state, or federal governments.
3. Hiring staff, whether employees or independent contractors, to provide patient care or administrative support.
4. Expenses incurred to improve infection control, including activities such as implementing infection control “mentorship” programs with subject matter experts or changes made to physical facilities.
5. Providing additional services to residents, such as technology that permits residents to connect with their families if the families are not able to visit in person.
6. The recipient must provide or have provided after January 31, 2020, diagnoses, testing, or care for individuals with possible or actual cases of COVID-19.
7. *Activities Allowed (Rural distribution)*

*Terms and Conditions*

Funds may only be used to reimburse the provider(s) associated with the applicable subsidiary or billing TIN and cannot be transferred or allocated to another entity not associated with the subsidiary or billing TIN. Control and use of the Payment must be delegated to the Recipient that was eligible for and received the Payment.

1. *Activities Unallowed (All distributions)*

*Law (Pub. L. No. 116-136, 134 Stat. 563 and Pub. L. No. 116-139, 134 Stat. 622, Pub. L. No. 117-2)*

That these funds may not be used to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse.

*Terms and Conditions*

Payments may not be used to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse.

*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

### Additional Program Specific Information

**This section should contain program specific information for Activities Allowed and Unallowed that are applicable to the program AL being tested and contained within the individual grant application, agreement, and policies. Include any additional requirements and delete this yellow highlighted text. Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

### 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)*

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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 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

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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 \_\_\_\_\_\_\_\_\_\_**
 |

## 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**

While 45 CFR 75 Subpart E – Cost Principles do not apply to the PRF and the ARP Rural Distribution, charges to the PRF and the ARP Rural Distribution must be necessary, reasonable, accorded consistent treatment, and conform to the limitations and exclusions of the terms and conditions of the award. The PRF and ARP Rural Distribution Frequently Asked Questions referenced under Availability of Other Information above provides additional guidance and examples.

*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

**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

**This section should contain program specific information for Allowed Costs/Cost Principles that are applicable to the program AL being tested from and contained within the individual grant application, agreement, and policies. Include any additional requirements and place that information with the related suggested audit procedures and delete the yellow highlighted text. Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

### 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 levela. 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 \_\_\_\_\_\_\_\_\_\_**
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## L. REPORTING

**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

*Financial Reporting*

Recipients must use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form) when reporting to the Federal awarding agency. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires reporting of accrual information and the recipient’s accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis of available documentation. The Federal awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of closed formats or on paper.

Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of available documentation.

The financial reporting requirements for subrecipients are as specified by the pass-through entity. In many cases, these will be the same as or similar to those for recipients.

The standard financial reporting forms for grants and cooperative agreements are as follows:

* *Request for Advance or Reimbursement (SF-270) (OMB No. 0348-0004))*. Recipients are required to use the SF-270 to request reimbursement payments under non-construction programs, and may be required to use it to request advance payments.
* *Outlay Report and Request for Reimbursement for Construction Programs (SF-271) (OMB No. 0348-0002))*. Recipients use the SF-271 to request funds for construction projects unless they are paid in advance or the SF-270 is used.
* *Federal Financial Report (FFR) (SF-425/SF-425A) (OMB No. 0348-0061)).* Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Electronic versions of the standard forms are located on agency’s home page. Financial reporting requirements for cost reimbursement contracts subject to the Federal Acquisition Regulation (FAR) are contained in the terms and conditions of the contract.

*Performance and Special Reporting*

Non-Federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB (2 CFR 200.329(c)(1)). They also may be required to submit special reports as required by the terms and conditions of the Federal award.

Compliance testing of performance and special reporting is only included in Part 4, “Agency Program Requirements” and Part 5, “Clusters of Programs,” if such reporting has been identified by a federal agency as subject to audit. Further, compliance testing of performance and special reports is only required for data, identified by agencies in parts 4 and 5 as key line items, that are quantifiable and are capable of evaluation against objective criteria stated in the statutes, regulations, contract or grant agreements pertaining to the program.

Performance and special reports in parts 4 and 5 are assumed to meet the above criteria. However, if an agency does not identify key line items for a performance or special report, auditors are only required to test that the report was submitted in a timely manner and no other procedures are required. Similarly, if key line items are identified in parts 4 and 5 that would not be quantifiable and capable of evaluation against objective criteria (e.g., narratives, futuristic information, information that would require verification at the program beneficiary level), auditors are not required to perform testing of such items.

**Federal Funding Accountability and Transparency Act**

Under the requirements of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282), as amended by Section 6202 of Pub. L. No. 110-252, hereafter referred as the “Transparency Act” that are codified in 2 CFR Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). In accordance with OMB Memorandum M-20-21, Implementation Guidance for Supplementing Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19), existing Transparency Act subaward reporting requirements may be leveraged to meet the transparency requirements outlined in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (https://www.usaspending.gov/search).

Where the Reporting type of compliance requirement is marked as a “Y” in the Part 2 Matrix of Compliance Requirements, indicating it is subject to audit, auditors must test the compliance with the reporting requirements of 2 CFR Part 170 using the guidance in this section when the auditor determines Reporting to be direct and material and the recipient makes first tier awards.

*Federal Funding Accountability and Transparency Act*

Aspects of the Transparency Act that relate to subaward reporting (1) under grants and cooperative agreements were implemented in OMB in 2 CFR Part 170 and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR at 5 FR 39414 et seq., July 8, 2010). The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR Part 170 and the FAR. The guidance at 2 CFR Part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements (e.g., it does not apply to loans made by a federal agency to a recipient), however the subaward reporting requirement applies to all types of first-tier subawards under a grant or cooperative agreement.

As provided in 2 CFR Part 170 and FAR Subpart 4.14, respectively, federal agencies are required to include the award term specified in Appendix A to 2 CFR Part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

Consistent with the OMB guidance,

• 2 CFR Part 170 “subaward” has the meaning given in 2 CFR 200.1 and means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

• FAR 52.204-10(a) defines “first-tier subcontract” to mean a subcontract awarded directly by a contractor to acquire supplies or services (including construction) for performance of a prime contract, but excludes the contractor’s supplier agreements with vendors, such as long-term arrangements for materials or supplies that benefit multiple contracts or the costs of which would normally be applied to a contractor's general and administrative expenses or indirect cost.

While 2 CFR Part 170 and the FAR implement several distinct Transparency Act reporting requirements, including reporting of executive compensation, the Supplement addresses only the following requirements: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of $30,000 or more in federal funds; and (2) contractor reporting of each first-tier subcontract award of $30,000 or more in federal funds (this requirement was phased in based on the value of the new prime contract as specified below under “Effective Date of Reporting Requirements”).

*Reporting Site*

Grant and cooperative agreement recipients and contractors are required to register FSRS and report subaward data through FSRS. To do so, they will first be required to register in the System for Award Management (SAM) (if they have not done so previously for another purpose (e.g., submission of applications through Grants.gov) and actively maintain that registration. Prime contractors have previously been required to register in SAM. Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search> ).

*Key Data Elements*

Compliance testing of the Transparency Act reporting requirements must include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements.

|  |  |
| --- | --- |
| **Subaward Data Element** | **Definition** |
| Subawardee Name | This is the Sub-Awardee’s Name |
| Subawardee DUNS # | The subawardee organization’s nine-digit Data Universal Numbering System (DUNS) number. |
| Amount of Subaward | The net dollar amount of federal funds awarded to thesubawardee including modifications. |
| Subaward Obligation/Action Date | Date the subaward agreement was signed. |
| Date of Report Submission | Date the recipient entered the action/obligation into FSRS. |
| Subaward Number | Subaward number or other identifying number assigned by the prime awardee organization to facilitate the tracking of itssubawards. |
| Subaward Project Description | Describes the subaward project. |
| Subawardee Names and Compensation of HighlyCompensated Officers | Names of officers if thresholds are met. |

For purposes of programs included in parts 4 and 5 of this Supplement, the designation “Not Applicable” in relation to “Financial Reporting,” “Performance Reporting,” and “Special Reporting” means that the auditor is not expected to audit anything in these categories, whether or not award terms and conditions may require such reporting.

**Source of Governing Requirements**

**Reporting requirements are contained in the following:**

1. Financial reporting, 2 CFR 200.328
2. Monitoring and reporting program performance, 2 CFR 200.329
3. Program legislation.
4. Transparency Act, implementing requirements in 2 CFR Part 170 and the FAR, and the previously listed OMB guidance documents.
5. Federal awarding agency regulations.
6. 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. **Financial Reporting**
	1. *SF-270, Request for Advance or Reimbursement* – Not Applicable
	2. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
	3. *SF-425, Federal Financial Report* – Not Applicable
2. **Performance Reporting** – Not Applicable
3. **Special Reporting**

*PRF Report*

Provider Relief Fund Reporting Portal (A Public Health Emergency Declaration- PRA Waiver Notice was issued January 14, 2021, applicable to the financial information collected by HRSA from eligible healthcare providers (<https://aspe.hhs.gov/public-health-emergency-declaration-pra-waivers>).

The PRF reporting portal was launched on July 1, 2021 (<https://prfreporting.hrsa.gov/s/>); refer to the table in the Program Objective section for reporting time period(s). Auditors are expected to test this special reporting for fiscal years ending on or after June 30, 2021. Since the PRF and ARP Rural Distribution amounts to be reported on a recipient’s Schedule of Expenditures of Federal Awards (SEFA) are based on the PRF report (see the Other Information section below), and since the PRF report is to be tested as part of the Reporting type of compliance requirement, auditors should consider delaying the commencement of the compliance audit of the PRF program until recipients have completed the PRF report.

*Key Line Items* – The following line items contain critical information (items are not numbered in report):

1. Nursing Home Infection Control Expenses for Payments Received During Payment Period for Payment Received Period
	1. Total Nursing Home Infection Control Expenses – Cell that contains the aggregated total sum
2. Other Provider Relief Fund Expenses for Payments Received During Payment Period for Payment Received Period
	1. Total Other Provider Relief Fund Expenses – Cell that contains the aggregated total sum
3. Calculation of Lost Revenues Attributable to Coronavirus
	1. 2019 Actuals
		1. Total Column for Total Revenue/Net Charges from Patient Care (2019 Actuals) – Each cell by payer and the cell at the bottom of each quarter (Total revenue/Net Charges from Patient Care) and for each year, 2019, 2020, 2021 and 2022
	2. 2020 Budgeted
		1. Total Column for Total Revenue/Net Charges from Patient Care (Budgeted) – Each cell at the bottom of each quarter (Total revenue/Net Charges from Patient Care) and for each year, 2020,2021, and 2022.
		2. Total Column for Total Revenue/Net Charges from Patient Care (Actuals) – Each cell by payer and the cell at the bottom of each quarter (Total revenue/Net Charges from Patient Care) and for each year, 2020 2021, and 2022.
	3. Alternate Method of Calculating Lost Revenues Attributable to Coronavirus
		1. Each individual cell in the alternative method – audit back to the narrative and underlying supporting documentation. (**Note**: The auditor is not responsible for determining the reasonableness of the alternative method described in the narrative.)
4. **Special Reporting for Federal Funding Accountability and Transparency Act** – See OMB Compliance Requirements section above for audit guidance.

*(Source: 2022 OMB Compliance Supplement, Part 4, HHS, #93.198 Provider Relief Fund)*

### Additional Program Specific Information

**This section should contain program specific information for Reporting that are applicable to the program AL being tested from and contained within the individual grant application, agreement, and policies. Include any additional material requirements and delete the yellow highlighted text. Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

### 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 reports for federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

*(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):** |
| **Note for Direct Awards Only**: For recipients using HHS’ Payment Management System (PMS) to draw Federal funds, the auditor should consider the following steps numbered 1 through 4 as they pertain to the cash reporting portion of the SF-425A, regardless of the source of the data included in the PMS reports. (During FY2016, HHS is completing the transition from pooled payment to use of subaccounts.) Although certain data is supplied by the Federal awarding agency (e.g., award authorization amounts) and certain amounts are provided by HHS’ Payment Management Services, the auditor should ensure that such amounts are in agreement with the recipient’s records and are otherwise accurate.**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. Review applicable statutes, regulations, and the terms and conditions of the Federal award pertaining to reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency or pass-through entity, in the case of a subrecipient, instructions for completing the reports.a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.2. Select a sample of reports and perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:a. Comparing current period reports to prior period reports.b. Comparing anticipated results to the data included in the reports.c. Comparing information obtained during the audit of the financial statements to the reports.3. Select a sample of each of the following report types, and test for accuracy and completeness:a. *Financial reports*(1) Ascertain if the financial reports were prepared in accordance with the required accounting basis. (2) Review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).(3) Trace the amounts reported to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.(4) For any discrepancies noted in SF-425 reports concerning cash status when the advance payment method is used, review subsequent SF-425 reports to ascertain if the discrepancies were appropriately resolved with the applicable payment system.b. *Performance and special reports*(1) Review the supporting records and ascertain if all applicable data elements were included in the sampled reports. Trace the reported data to records that accumulate and summarize data.(2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.c. Special reports for FFATA(1) Gain an understanding of the recipient’s methodology used to identify which, if any, awards were subject to the Transparency Act based on inclusion of the award term, the assignment by the federal awarding agency of a new FAIN, the effective date of the reporting requirement, and whether the entity passed funds through to first tier subrecipients.(2) Select a sample of first tier subawards. Obtain related subaward agreements/amendments/modifications and determine if the subaward/subcontract was subject to reporting under the Transparency Act based on (a) the date of the award and (b) the amount of the obligating action for subawards or face value of the first-tier subcontracts (inclusive of modifications).If the subaward/subcontract was subject to reporting under the Transparency Act:(a) Using the FAIN, find the award in FSRS.FSRS is the portal where the recipient enters the award information; it is only accessible by the recipient. Therefore, in order for recipients to demonstrate that information has been properly input, they should coordinate with the auditor regarding the auditor’s review of the information, physically or virtually (e.g. by logging into its FSRS account either in the auditor’s presence or remotely using technology such as screensharing, screenshot evidence, etc.) so that the auditor is able to find the awards in the system as required in this procedure).(b) Compare the award information accessed in step 2.a to the subaward/subcontract documents maintained by the recipient to assess if—(i) applicable subaward obligations /modifications have been reported,(ii) the key data elements (see above) were accurately reported and are supported by the source documentation, and(iii) the action was reported in FSRS no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.(c) The auditor must provide the following information for non- compliance finding (s) as the results of step 2.b.(i) The non-federal entity did not report the subaward information(ii) The non-federal entity did not report the subaward information timely(iii) The non-federal entity reported incorrect amount(iv) The non-federal entity did not report all the key data elementsThe following format is recommended to report non-compliance findings and included in the audit report. Data is included for illustration purposes only.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Transactions Tested** | **Subaward not reported** | **Report not timely** | **Subaward amount incorrect** | **Subaward missing key elements** |
| 25 | 2 | 10 | 13 | 0 |
| **Dollar Amount of Tested Transactions** | **Subaward not reported** | **Report not timely** | **Subaward amount incorrect** | **Subaward missing key elements** |
| $5,000,000 | $200,000 | $4,000,000 | $800,000 | $0 |

d. *For each type of report*(1) When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.(2) Test mathematical accuracy of reports and supporting worksheets.4. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the applicable payment system, or pass-through entity in the case of a subrecipient. |

### 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 \_\_\_\_\_\_\_\_\_\_**
 |

## 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.)

|  |
| --- |
| **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**, 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.

|  |
| --- |
| **Cross-reference to internal control matters (significant deficiencies or material weaknesses), if any, documented in the FACCR:** |
|  |

|  |
| --- |
| **Cross-reference to questioned costs and matter of noncompliance, if any, documented in this FACCR:** |
|  |

**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.

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