**Federal Awards Compliance Audit Guidance and Testing**

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

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| **AL#:** | 10.557 |

**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**](mailto:AOSFederal@ohioauditor.gov)**).**

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

**NAVIGATION PANE**

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

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# AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS

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

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

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

*(Source: AOS CFAE)*

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# Introduction: Materiality by Compliance Requirement Matrix

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

**The programs listed above are impacted by the COVID-19 waivers.**

Pursuant to the Coronavirus Aid, Relief, and Economic Security Act (Pub. L. No. 116-136), Families First Coronavirus Response Act (the Act) (Pub. L. No. 116-127), the American Rescue Plan Act of 2021 (Pub. L. No. 117-2), and in light of the exceptional circumstances of the ongoing public health emergency, the Food and Nutrition Service (FNS) granted several waivers for the aforementioned programs to ease program operations at the state and local levels and minimize the potential exposure to the novel coronavirus (COVID-19).

To view a complete portfolio of waivers, their descriptions, and states elected or requested to implement these waivers, please go to [https://www.fns.usda.gov/disaster/pandemic/covid-19](http://www.fns.usda.gov/disaster/pandemic/covid-19). Each individual waiver contains a link to view the full description along with each state approved to implement the waiver. In addition, copies of individual state waivers are available at the links for each state.

For auditing purposes during this public health emergency, it is recommended that the audit community obtain the list of waivers from the audited state agency and local agency and adapt the audit test steps to reflect these flexibilities. Each waiver offered has reporting requirements that must be adhered to by the state agency. For example, pursuant to section 2202(d) of the Act, each state that elects to be subject to a waiver under section 2202(a)(b)(c) must submit a report to the secretary not later than one year after the date such state received the waiver. The report must include: (1) a summary of the use of this waiver by the state agency and local program operators; and (2) a description of whether and how this waiver resulted in improved services to program participants. Although there is no requirement for auditors to test reporting requirements for waivers applied by the state agency, auditors should be aware of this reporting requirement for each waiver exercised by the state agency. Documentation must be maintained by the state agency summarizing the use of each waiver and how each waiver improved its services to program participants.

In addition, the 2022 Compliance Supplement for the FNS programs listed in this document contain the procedures that auditors would normally follow during customary program operations. Due to COVID-19 and the subsequent closures, as in the case of the public schools, FNS would expect instances when it is not possible to perform certain audit steps as written in the Compliance Supplement. Such instances should be documented by the auditors.

Questions regarding this document should be directed to FNS’s Office of Financial Management, Office of Internal Controls, Audits and Investigations at [SM.FN.FM-SingleAudits@usda.gov.](mailto:SM.FN.FM-SingleAudits@usda.gov)

*(Source: 2022 OMB Compliance Supplement, USDA - Multiple Program Covid-19 Waivers)*

### I. Program Objectives

The objective of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is to provide to provide low-income pregnant, breastfeeding, and postpartum women, infants, and children to age 5 who have been determined to be at nutritional risk, supplemental nutritious foods, nutrition education, and referrals to health and social services at no cost. WIC also promotes and supports breastfeeding as the feeding method of choice for infants, provides substance abuse education, and promotes immunization and other aspects of healthy living.

The USDA’s Food and Nutrition Service (FNS) makes funds available to participating state agencies (usually health departments). State agencies distribute the funds to participating local agencies, which operate WIC clinics. State and local agencies use WIC funds to pay the costs of specified supplemental foods provided to WIC participants, and to pay for specified Nutrition Services and Administration (NSA) costs, including the cost of nutrition assessments, blood tests for anemia, nutrition education, breastfeeding promotion and support, and health care referrals.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### II. Program Procedures

1. **Administration**

The USDA’s FNS administers the WIC program through grants awarded to state health departments or comparable state agencies, Indian tribal organizations, bands or intertribal councils, or groups recognized by the Bureau of Indian Affairs, US Department of the Interior, or the Indian Health Service (IHS) of the US Department of Health and Human Services (HHS) (“ITOs”). A state agency administering the WIC program must sign a federal/state agreement that commits it to observe applicable laws and regulations in carrying out the program. The state agencies, in turn, award subgrants to local agencies to certify applicants’ eligibility for WIC program benefits and deliver such benefits to eligible persons.

1. **Program Funding**

The WIC program is a grant program that is 100 percent federally funded. No state matching requirement exists. Funds are awarded by FNS on the basis of funding formulas prescribed in the WIC program regulations.

FNS allocates federally appropriated funds to WIC state agencies as grants, which are divided into two parts: a component for food costs and a component for NSA costs. Resources made available to a state agency under these two components of its initial federal WIC formula grant may be modified by the cumulative effect of the following requirements:

*1. Reallocations and Recoveries*

The WIC Program’s authorizing statute and regulations require FNS to recover unspent funds and reallocate them to state agencies.

*2. Conversion Authority*

A state agency that submits a plan to increase WIC participation under a cost containment strategy, as outlined under the “Cost Containment Requirements” section below, in excess of the increases projected by FNS in the NSA funds allocation formula, may shift a portion of its food grant component to its NSA component. This “conversion authority” is a function of the “excess” participation increase and is determined by FNS (see III.A.2, “Activities Allowed or Unallowed – Exceptions”).

*3. Spending Options*

Federal legislation and regulations authorize a state agency to shift a portion of its federal WIC formula grant between grant periods (federal fiscal years) (see III.H, “Period of Performance”).

*4. Rebates*

A state agency may contract with a food manufacturer to receive a rebate on each unit of the manufacturer’s product purchased with food instruments (FIs) redeemed by program participants. Such rebates are credits for food costs that are reported in the month in which the rebate was received.

*5. Vendor, Participant, and Local Agency Collections*

A state agency is authorized to retain federal program funds recovered through claims action against vendors, participants, and local agencies, and to use such recoveries for program purposes (see III.B, “Allowable Costs/Cost Principles”).

*6. Program Income*

Certain miscellaneous receipts a state agency collects as the result of WIC program operations are classified as program income (see III.J, “Program Income”).

*7. State Funding*

Although the federal financial participation (FFP) for WIC is 100 percent, some states voluntarily appropriate funds from their own revenues to extend WIC services beyond the level that could be supported by federal funding alone.

1. **Certification**

Applicants for WIC program benefits are screened at WIC clinic sites to determine whether they meet the eligibility criteria in the following categories: categorical, residency, income, and nutritional risk (see III.E.1, “Eligibility – Eligibility for Individuals”).

1. **Benefits**

The WIC program provides participants with specific nutritious supplemental foods, nutrition education (including breastfeeding promotion and support), and health services referrals at no cost. The authorized supplemental foods are prescribed from standard food packages according to the category and nutritional need of the participant. The seven food packages available are described in detail in WIC program regulations.

About 75 percent of the WIC program’s annual appropriation is used to provide WIC participants with monthly food package benefits. The remainder is used to provide additional services to participants and to manage the program. Additional services provided to WIC participants include nutrition education, breastfeeding promotion and support activities, and client services, such as diet and health assessments, referral services for other health care and social services, and coordination activities.

1. **Food Benefit Delivery**

Supplemental foods are provided to participants in any one of three ways, which are defined in program regulations at 7 CFR section 246.12(b) as follows:

*Direct Distribution Food Delivery Systems* (used in West Virginia, Delaware, Pennsylvania, Maryland, and in parts of Illinois, for example)

The state agency and/or its agent purchases supplemental foods in bulk and issues them to participants at designated distribution facilities.

*Home Food Delivery Systems* (used in parts of Alaska)

Arrangements with home food delivery contractors provide for the delivery of supplemental foods directly to participants’ homes.

*Retail Food Delivery System* (used by most state agencies)

Negotiable FIs are issued directly to individual participants, who use them to obtain authorized supplemental foods at retail stores approved as vendors by the state agency. FIs can be either paper checks/vouchers or electronic benefit transfer (EBT) cards and may be processed by a bank and/or processor or the WIC state agency itself. For paper checks, the participant must use an FI within 30 days of the first date of use printed on the FI, and the vendor must submit the FI for payment within 60 days of that date. For EBT cards, the participant must redeem all benefits by the end of 30 days from the first date on which it was issued except for the first month of issuance. The benefit balance associated with the EBT account cannot be redeemed after the end date specifically authorized by the state agency management information system.

Negotiable paper cash-value vouchers (CVVs) or EBT cash-value benefits (CVBs) are issued directly to participants, who use them to obtain authorized fruits and vegetables from WIC-authorized vendors or farmers or farmers’ markets authorized by the state agency (if the state agency elects to authorize farmers or farmers’ markets). FIs and CVVs/CVBs share several features. Both are negotiable for stated periods of time. Unlike other FIs, CVVs, and CVBs are issued with face values in standard denominations. Under EBT systems, the CVB is established as a separate food category with a benefit unit of dollars rather than food quantities. No additional EBT card or voucher is issued by the state agency.

Each paper FI or CVV issued to a participant must have a unique serial number. In EBT, the card number represents the unique serial number for off-line benefit tracking, while a unique benefit identification (ID) number is used for on-line tracking. A state agency is required to determine the ultimate disposition of all FIs and CVVs by serial number or ID number within 120 days of the first valid date for participant use. The state agency must adjust previously reported obligations for WIC food costs in order to account for actual FI or CVV redemptions and other changes in the status of FIs or CVVs. For EBT, the CVB is accounted for as a unique benefit in the same manner as other items in the food balance.

1. **Cost Containment Requirements**

In an effort to use their food funding more efficiently, all WIC state agencies in the 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Marianas Islands, and most ITOs have implemented cost containment measures. Reducing the average food cost per person enables WIC to reach more participants with a given amount of funds. The most successful strategy has been the negotiation of competitive rebate contracts between state agencies and infant formula companies. Such contracts provide for the state agency to receive rebates on infant formula used in the program. Other cost containment measures used by state agencies include competitive bidding for infant cereal, infant meats, infant fruits, and infant vegetables; selection of retail vendors based on competitive prices; setting maximum redemption amounts for FIs or food items for EBT; authorizing the use of store or generic brands of supplemental foods; and using a home delivery or direct distribution food delivery system.

1. *Vendor Cost Containment*

Requirements for selecting and paying vendors on the basis of competitive prices are in 7 CFR section 246.12(g)(4). These requirements do not apply to farmers, farmers’ markets, or to CVVs transacted by retail vendors. Unless FNS has granted a state agency an exemption, the state agency is required to:

1. Maintain (and assess and modify, as necessary) a vendor peer group system, whereby authorized vendors are classified into groups on the basis of common characteristics or criteria that affect food prices. At least one such criterion must be a measure of geography, such as metropolitan or other statistical areas that form distinct labor and products markets.
2. Select and authorize vendors by applying competitive price criteria.
3. Set limits on payments to vendors within each peer group.
4. Identify vendors (called “above-50-percent vendors”) that derive more than 50 percent of their annual food sales revenue from WIC FIs.

e. Comply with requirements designed to ensure that the use of above-50- percent vendors is cost neutral to the program (that is, that it does not result in higher WIC food costs than would have been the case if WIC participants had transacted their WIC FIs only at regular vendors). (See III.N.4, “Special Tests and Provisions – Authorization of Above-50- Percent Vendors.”)

1. **Federal Oversight and Compliance Mechanisms**

FNS oversees state operations through an organization consisting of headquarters and seven regional offices. Federal program oversight encompasses review of the nine functional areas of the program through management evaluations (MEs): Organization and Management; Funding and Participation; Vendor Management; Information Systems; Certification, Eligibility, and Coordination; Nutrition Services; Civil Rights; Monitoring and Audits; and Food Delivery. Each year, FNS issues a WIC ME Target Area Memorandum, which instructs regional offices what to evaluate via MEs the following year. Target Areas are established in order to focus FNS’s oversight efforts on key areas related to WIC program integrity and operations. Usually, the Target Area comprises one functional area and risk-based MEs.

Although FNS uses technical assistance extensively to promote improvements in state operation of the WIC program, enforcement mechanisms are also present. The misuse of funds through state or local agency negligence or fraud may result in the assessment of a claim. Claims may be established for funds lost due to FI or CVV theft or embezzlement or for unreconciled FIs or CVVs. FNS has other mechanisms to recover other losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds for failure to implement program requirements.

FNS has identified the following circumstances that may indicate noncompliance with WIC program requirements: (1) redeemed FIs or CVVs which the issuing local agencies had reported as voided or unclaimed; (2) a large number of consecutively numbered, unreconciled FIs or CVVs issued by the same local agency; (3) redeemed FIs or CVVs that appear to have been validly issued but fail to match issuance records; and (4) participants that transacted all of their FIs or EBT balances on the same day as they were issued.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### III. Source of Governing Requirements

The WIC Program is authorized by Section 17 of the Child Nutrition Act of 1966 (42 USC 1786). Program regulations are found at 7 CFR Part 246.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### IV. Other Information

For other information, contact the applicable FNS regional office. Regional office contact information and the states each regional office serves may be found on FNS’s website ([http://www.fns.usda.gov/wic).](http://www.fns.usda.gov/wic) The WIC program regulations can be found at that website as well.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

Pursuant to the Coronavirus Aid, Relief, and Economic Security Act (Pub. L. No. 116-136), Families First Coronavirus Response Act (the Act) (Pub. L. No. 116-127), the American Rescue Plan Act of 2021 (Pub. L. No. 117-2), and in light of the exceptional circumstances of the ongoing public health emergency, the Food and Nutrition Service (FNS) granted several waivers for the aforementioned programs to ease program operations at the state and local levels and minimize the potential exposure to the novel coronavirus (COVID-19).

To view a complete portfolio of waivers, their descriptions, and states elected or requested to implement these waivers, please go to [https://www.fns.usda.gov/disaster/pandemic/covid-19](http://www.fns.usda.gov/disaster/pandemic/covid-19). Each individual waiver contains a link to view the full description along with each state approved to implement the waiver. In addition, copies of individual state waivers are available at the links for each state.

For auditing purposes during this public health emergency, it is recommended that the audit community obtain the list of waivers from the audited state agency and local agency and adapt the audit test steps to reflect these flexibilities. Each waiver offered has reporting requirements that must be adhered to by the state agency. For example, pursuant to section 2202(d) of the Act, each state that elects to be subject to a waiver under section 2202(a)(b)(c) must submit a report to the secretary not later than one year after the date such state received the waiver. The report must include: (1) a summary of the use of this waiver by the state agency and local program operators; and (2) a description of whether and how this waiver resulted in improved services to program participants. Although there is no requirement for auditors to test reporting requirements for waivers applied by the state agency, auditors should be aware of this reporting requirement for each waiver exercised by the state agency. Documentation must be maintained by the state agency summarizing the use of each waiver and how each waiver improved its services to program participants.

In addition, the 2022 Compliance Supplement for the FNS programs listed in this document contain the procedures that auditors would normally follow during customary program operations. Due to COVID-19 and the subsequent closures, as in the case of the public schools, FNS would expect instances when it is not possible to perform certain audit steps as written in the Compliance Supplement. Such instances should be documented by the auditors.

Questions regarding this document should be directed to FNS’s Office of Financial Management, Office of Internal Controls, Audits and Investigations at [SM.FN.FM-SingleAudits@usda.gov.](mailto:SM.FN.FM-SingleAudits@usda.gov)

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, COVID-19 Waivers)*

# Part II – Pass through Agency and Grant Specific Information

U.S. Department of Agriculture passes WIC funding through to the Ohio Department of Health (ODH).

In Ohio, ODH recipients are governed by the uniform administration guidelines in the ODH Grants Administration Policy and Procedure Manual (GAPP Manual). Several sections of that manual are used as sources within this document. The manual should be available from the local entity for auditors to review; however, the OGAPP Manual is also available on the ODH web site.

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in December 2017* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administration-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administration-policies-and-procedures-ogapp-manual)*)*

### Program Overview and Testing Considerations

**Ohio Department of Health:**

**B1.0 Conditions of a Subrecipient**

No applicant shall be funded if the terms and conditions of the Solicitation (formerly known as Request for Proposal) have not been met by the submission due date of the application.

Enforcement of the OGAPP begins when the application is submitted. Before the Director of Health can approve an applicant for funding, the applicant must meet the following criteria:

1. Applicant must prove eligibility as a qualifying organization (i.e. the applicant must be a local government, hospital, educational institution, or non-profit corporation).

2. Applicant must submit all required assurances. The assurances shall be current and have been signed by the applicant in the calendar year of application. The assurances shall be accurate. Any assurance found by an audit to be untrue shall cause immediate suspension of funds with an obligation to return any funds disbursed. Any costs incurred shall be the responsibility of the applicant. Assurances for non-governmental agencies shall include evidence of the appropriate liability insurance coverage.

3. Applicant must show capacity to achieve program and fiscal objectives. Letters of support, if required, shall be signed in the current fiscal year and be specific to the subrecipient project objectives.

4. Applicant must demonstrate the ability and willingness to comply with ALL applicable federal and state laws, regulations, and policies.

Conditional funding shall apply only to item #3 above. Applicants with deficiencies related to items 1, 2, and 4 may not be funded.

**B1.2 Public Health Accreditation Board (PHAB) Standards**

The current Public Health Standards, [Ohio Administrative Code 3701-36](https://codes.ohio.gov/ohio-administrative-code/chapter-3701-36) (reference [Ohio Revised Code 3701.342),](https://codes.ohio.gov/ohio-revised-code/section-3701.342) became effective in 1984.

Program-specific Solicitations will identify the Public Health Accreditation Board (PHAB) standards that will be addressed by the grant activities. More information on the PHAB standards can be found at [http://www.phaboard.org](http://www.phaboard.org/).

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in December 2017* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administration-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administration-policies-and-procedures-ogapp-manual) *)*

### 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. *General Rule*
2. Funds allocated to a state agency for food must be expended to purchase supplemental foods for participants or to redeem FIs or CVVs issued for that purpose. When supplemental foods are provided to participants via direct distribution, the related warehouse facilities costs shall be allowable food costs. Food funds can also be used to purchase breast pumps for participants (7 CFR sections 246.14(a) and (b)). Federal program funds may not be used to pay for retroactive benefits to participants (7 CFR section 246.14(a)(2)).
3. Funds allocated for NSA must be used for the costs incurred by the state or local agency to provide participants with nutrition education, breastfeeding promotion and support, and referrals to other social and medical service providers; and to conduct participant certification, caseload management, food benefit delivery, vendor management, voter registration, and program management (42 USC 1786(h)(1)(C)(ii); 7 CFR sections 246.14(c) and (d)).
4. *Exceptions*
5. Funds allocated for food costs may be converted (be applied to NSA costs) (1) as a result of a state’s plan to exceed participation levels projected by the federal funding formula; or (2) after recovery as vendor or participant collections. Conversion due to planned participation increases is allowed only if such increases are expected to result from an approved cost containment plan (7 CFR sections 246.14(e) and 246.16(f)).
6. Funds allocated for NSA costs but not needed for such costs may be applied to food costs (7 CFR section 246.14(a)(2)).
7. *Distinguishing WIC from Non-WIC Services*

Under no circumstances may the WIC NSA grant component be charged for costs that are demonstrably outside the scope of the WIC program. WIC services may include (a) some screening (excluding laboratory tests other than the blood work [hematological test] described below, which is required for determining WIC eligibility); (b) referrals for other medical/social services, such as immunizations, prenatal (before birth) care, perinatal care (near the time of birth from the 28th week of pregnancy through 28 days following birth), and well child care and/or family planning; and (c) follow-up on participants referred for such services. However, the cost of the services performed by other health care or social service providers to which the participant has been referred shall not be charged to the WIC grant. For example, the cost to screen, refer, and follow-up on immunizations for WIC participants may be charged to the WIC grant, but the cost to administer the shot, or to purchase the vaccine or vaccine-related equipment, may not be charged to the WIC grant.

A hematological test for anemia, such as a hemoglobin, hematocrit, or free erythrocyte protoporphyrin test, is the only laboratory test required to determine a person’s eligibility for WIC (7 CFR section 246.7(e)(1)). Accordingly, the cost of hematological tests for anemia is the only laboratory cost that may be charged to a WIC grant.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### Additional Program Specific Information

**Ohio Department of Health:**

**B2.1 Allowable Costs**

Allowable costs are those costs identified by the state or federal granting authority and the expenses in budgeted categories and line items that have been approved by ODH and specified in the Request for Proposal. The authorized budget categories for ODH grants are Personnel, Other Direct Costs, Equipment, and Contracts. Allowable costs include all subrecipient expenditures, whether paid by grant funds, applicant funds, or program income.

The NOA, which constitutes approval of the original program budget or a subsequently approved budget revision, is used to approve line item expenditures as allowable costs.

**B2.2 Unallowable Costs**

Grant costs cannot be considered allowable by ODH unless they meet the appropriate OMB cost principles and have been approved either in the initial application budget or in a subsequent approved budget revision. Funds must be used solely for the purpose as specified in the grant announcement or the Request for Proposal. However, costs that were previously approved on a budget, but have been found to be unallowable through a site monitoring visit or an audit, will be disallowed. The use of funds for prohibited purposes will result in the loss of grant funds and may require the subrecipient to return funds to ODH.

Grant funds may **not** be used for the following:

1. Advancement of political or religious points of view
2. Fund raising and investment management costs
3. Dissemination of factually incorrect or deceitful information
4. Consulting fee for salaried program personnel to perform activities related to grant objectives
5. Advertisement – other than for recruitment or procurement or if required by the specified program’s Solicitation
6. Bad debts of any kind
7. Contributions to a contingency fund or reserve
8. Entertainment
9. Alcoholic Beverages
10. Fines and penalties
11. Legal fees incurred in defense of any civil or criminal fraud proceeding
12. Membership fees, unless related to the program and approved by ODH
13. Loan or the principle amount of mortgage payments
14. Contributions made by program personnel
15. Costs to rent equipment or space owned by the funded agency
16. Inpatient services
17. Purchase or improvement of land; the purchase, construction or permanent improvement of any building
18. Satisfying any requirement for the expenditure of non-federal funds as a condition for the receipt of federal funds
19. Lodging, travel and meals over the current state rates (See Ohio Shared Services Website for hotel rates and Meals Per Diem at: <http://www.ohiosharedservices.ohio.gov/TravelandExpense.aspx> )
20. All costs related to out-of-state travel, unless prior approved by ODH
21. Training longer than one week in duration, unless prior approved by ODH
22. Contracts, for compensation, with advisory board members
23. Goods or services for personal use regardless if reported as taxable income to employee
24. Grant-related equipment costs greater than $1,000, unless justified and approved by ODH
25. Payments to any person for influencing or attempting to influence members of Congress or the Ohio General Assembly in connection with awarding of grants or other lobbying costs
26. Gas Card/Vouchers unless specified in the Federal program guidelines and included in the Solicitation
27. Promotional items (include items with slogans, logos, agency name/address, messaging). Promotional like items must be preapproved prior to submitting in agency subgrant program budget (e.g., to water bottles, t-shirts, totes that do not include slogans, logos, agency name/address, messaging).
28. Office furniture\*
29. Additional program specific Unallowable Costs per the CFDA, Program regulations and directives or state law specifications, which may be provided in the Solicitation.

\*Subrecipients will no longer be permitted to purchase office furniture, including but not limited to desks, chairs, file cabinets, using funding received from ODH. Subrecipients are permitted to purchase office furniture using the indirect funding collected from ODH subgrant funding. The transition to deliverable-based subgrants also provides another avenue for subrecipients to purchase office furniture. If office furniture is included in your current budget, you must attach a purchase order showing the purchase date. Any office furniture purchased on or after August 1, 2016 will be disallowed. Office furniture is being added to the Unallowable List in the solicitations and the OGAPP manual. With prior written approval, the ODH WIC subgrant program is permitted to purchase replacement office furniture within the first two quarters of the grant year. The ODH Director may grant a waiver to this policy under special circumstances. The written waiver request must clearly detail the circumstance for the need to purchase replacement office furniture (i.e., fire, flood). If a subrecipient no longer receives subgrant funding used to purchase office furniture, the furniture must be returned to ODH or transferred to another subrecipient receiving those subgrant funding. Please contact your grant consultant if you have any further questions.

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in December 2017* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administration-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administration-policies-and-procedures-ogapp-manual) *)*

**Indirect (Facilities and Administration): Note to Applicant – please select one of the three options that apply.**

Use the indirect cost rate included in the agency's Indirect Cost Rate Agreement as negotiated with and approved by the cognizant federal funder. If the applicant chooses this option, then the agreement must be submitted in GMIS as an attachment to the application.

If the subrecipient has not executed a federally approved Indirect Cost Rate Agreement, the subrecipient may elect to charge a de minimis rate of 10% of modified total direct costs (MIDC) which may be used indefinitely.

Base the budget solely upon direct costs.

For further information, please see section B2.10 of OGAAP.

*(Source: Section II, Paragraph B of the* [*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Solicitation for Fiscal Year 2020*](https://odh.ohio.gov/wps/wcm/connect/gov/72783b6b-87bc-4fca-b432-54847e926315/WA20+WIC.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE.Z18_M1HGGIK0N0JO00QO9DDDDM3000-72783b6b-87bc-4fca-b432-54847e926315-mIEXG08)*; Section II, Paragraph E of the* [*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Solicitation for Fiscal Year 2021*](https://odh.ohio.gov/wps/wcm/connect/gov/febb5c8c-31ac-449b-add5-ee2213f004da/WA21+WIC+Administration.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18_M1HGGIK0N0JO00QO9DDDDM3000-febb5c8c-31ac-449b-add5-ee2213f004da-n5mrzmh)*; and Section II, Paragraph E of the* [*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Solicitation for Fiscal Year 2022*](https://odh.ohio.gov/wps/wcm/connect/gov/6ece7352-10e1-4174-9f77-3268e2d8eb3f/WA22+WIC+Administration.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE.Z18_M1HGGIK0N0JO00QO9DDDDM3000-6ece7352-10e1-4174-9f77-3268e2d8eb3f-nAedmoH)*)*

**B2.5 Other Direct Costs**

Other Direct Costs are allowable costs not included in the GMIS budget categories of Personnel, Equipment, or Contracts. A direct cost is a cost that can be specifically identified with a particular final cost objective. Direct costs include, but are not limited to, supplies and travel directly benefiting the project or activity. All costs must be identified in the budget category by individual line items.

Direct costs to the project shall not exceed the percentage of project utilization. Usage records are required for costs that are not used exclusively by the program in order to support and document the amount charged to the program. Adequate accounting records must be maintained.

Facility Costs include rent and lease costs for items such as office and meeting space, used by the program but not owned by the agency, depreciation, interest on a mortgage debt and use allowance. Rent and lease costs must be supported by a copy of the current rent or lease agreement which must be signed by both the lessor and lessee and properly dated.

Non-reimbursable travel expenses include, but are not limited to, the following:

1. Alcoholic beverages

2. Entertainment expenses

3. Personal expenses incurred during travel that are primarily for the benefit of the traveler and not directly related to the official purpose of the grant. Examples include, but are not limited to, the purchase of personal hygiene items, magazines or books, movie rentals and other miscellaneous items.

4. Political expenses

5. Travel insurance expenses

6. The cost of traffic fines and parking tickets

7. Travel expenses incurred by any volunteer serving without compensation but listed on the budget application

Contractual employees are not considered subrecipient agency employees under these rules. Personnel, Other Direct Costs, Equipment, and Services for contractual employees must be included in the contractual agreement. Contractor travel should be budgeted and reported by classification (e.g. U.S. travel, out of country, patient) under the GMIS Contract category. Priority is given to travel that most directly benefits the project goals. Details describing the activity of each trip for subrecipient and contractual employees should be provided in the budget justification.

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in Dec. 2017 available at* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual)*)*

### Audit Objectives and Control Testing

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

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

**Audit Objectives**

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

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

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

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

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

### Suggested Audit Procedures – Compliance

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

### Audit Implications Summary

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

## B. ALLOWABLE COSTS/COST PRINCIPLES

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

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

### Applicability of Cost Principles

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

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

*(Source: AOS CFAE)*

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

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

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

**Source of Governing Requirements**

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

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

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

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

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

**Agency Codification Adjustments/Exceptions:**

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

**Basic Guidelines**

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

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

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

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

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

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

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

7. Be adequately documented.

**Selected Items of Cost**

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

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

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

**Part 4 OMB Program Specific Requirements**

1. *Applicable Credits*

The following items are credits against current vendor billings or prior expenditures:

a. *Rebates* – Rebates are credits for food costs that are reported in the month in which the rebate was received (7 CFR section 246.14(f)).

b. *Vendor Collections* – Post-payment vendor collections are funds collected through claims assessed against food vendors for errors and overcharges. Pre-payment vendor collections are improper payments prevented as a result of reviews of FIs or CVVs prior to payment; they are credits against vendor billings.

c. *Participant Collections* – These are recoveries of improperly issued food benefits as the result of a participant, guardian, or caretaker intentionally making a false or misleading statement or withholding information.

d. *Local Agency Collections* – These are funds collected as a result of claims assessed against local agencies for program funds that were misused or otherwise diverted from program purposes due to local agency negligence or fraud.

A state agency must recognize, use, and account for these items in accordance with WIC program regulations. At its discretion, the state agency may credit vendor, participant, and local agency collections against expenditures for food and/or NSA costs. The state agency may apply vendor, participant, and local agency collections to food and/or NSA expenditures of: (1) the fiscal year in which the initial obligation was made; (2) the fiscal year in which the claim arose; (3) the fiscal year in which the collection is received; or (4) the fiscal year following the fiscal year in which the collection is received (42 USC 1786(f)(21); 7 CFR section 246.14(e)).

1. *Capital Expenditures*

a. FNS has authorized WIC state and local agencies to charge the full acquisition cost of non-computer equipment costing less than $25,000 per unit without obtaining prior FNS approval, and to allow local agencies under their oversight to do likewise. FNS regional offices retain the discretion to apply a lower dollar threshold to an individual state agency and to the local agencies under its oversight, provided certain requirements apply and the state agency receives written notice.

b. Automated Data Processing (ADP) projects. FNS requires WIC state agencies to obtain prior approval to incur costs for certain ADP projects and to provide notification and/or documentation for others (7 CFR section 246.14(d)). Approval procedures are in FNS Handbook 901, Advance Planning Document Handbook (available at <https://www.fns.usda.gov/apd/handbook-and-guidance>).

Approval levels are as follows:

(1) A state agency must notify the applicable FNS regional office within 60 days of the initial expenditure or contract award for an ADP project costing in excess of $4,999 but less than $100,000; and

(2) A state agency must receive prior approval for (a) an ADP project that has a cost greater than $99,999; or (b) any ADP project associated with planning, developing, or deploying a new automation system.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

**Written Procedure Requirements:**

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

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

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

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

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

*(Source: CFAE/eCFR)*

### Additional Program Specific Information

**Ohio Department of Health:**

**B2.0 Cost Principles**

Cost principles dictate that subrecipients employ sound management practices when administering ODH grants. Subrecipients must conduct project-related activities in a manner consistent with underlying agreements, project objectives, and the terms and conditions of the grant.

The Office of Management and Budget New Uniform Guidance at [http://www.ecfr.gov](http://www.ecfr.gov/) are federal documents that establish standards for determining costs applicable to federal grants. These principles apply as a matter of policy to the expenditures of all grant funds at ODH. To be allowable under a project program, costs must meet the general criteria established within the OMB Uniform Guidance and Costs Circulars.

Budgeted estimates or other distribution percentages determined prior to the performance of services or the delivery of goods do not qualify as proper support for charges to Federal awards. Only documented actual charges should be charged to the award for goods and services.

**B2.1 Allowable Costs**

Allowable costs are those costs identified by the state or federal granting authority and the expenses in budgeted categories and line items that have been approved by ODH and specified in the Solicitation. The authorized budget categories for ODH grants are Personnel, Other Direct Costs, Equipment, and Contracts. Allowable costs include all subrecipient expenditures, whether paid by grant funds, applicant funds, or program income.

The NOA, which constitutes approval of the original program budget or a subsequently approved budget revision, is used to approve line item expenditures as allowable costs.

To be allowable under ODH, subrecipient project costs must be budgeted and must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of the program; be allocable to the program under the proper cost principle, and not be a general expense required to carry out overall agency responsibilities.

b. Be authorized or not prohibited under State or local laws or regulations.

c. Conform to OGAPP guidelines and any limitations or exclusions set forth in Federal or State laws, terms and conditions of the award, or other governing regulation/limitations on types or amount of cost items.

d. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal or State awards and other activities of the subrecipient agency.

e. Be accorded consistent treatment through the application of generally accepted accounting principles appropriate to the circumstances.

f. Be supported by adequate documentation.

g. Not be allocable to or included as a cost or used to meet cost sharing or matching requirements of any other state or federally funded program in either the current or a prior period; and

h. Are net of applicable credits (refers to those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct costs). This may include vendor rebates, discounts, or refunds granted to project expenditures.

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the agency or the performance of the Award;

b. The restraints or requirements imposed by such factors as sound business practices; arm’s length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the award;

c. Market price for comparable goods or services;

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the agency, its employees, the public, and the Federal or State Government; and

e. Significant deviations from the established practices of the agency, which may unjustifiably increase the cost of the program.

Note: If a line item is deemed noncompliant with rules and regulations, that cost will be disallowed.

Items normally considered allowable costs include costs pertaining to accounting, advertising for recruitment of personnel, soliciting procurement bids, books, periodicals, communications, contracts for goods and services, equipment, employee salaries and fringe benefits, employee travel and per diem, exhibits, educational or training materials, maintenance, medical and office supplies, and printing of items that benefit the project. Please refer to the Other Direct Costs definitions to determine where items should be budgeted.

Note: Refer to your Solicitation to determine whether Client Incentives and Enablers are allowed.

Even if a federal program or cost principle allows an expense, ODH reserves the right to be more restrictive and disallow the cost for simplicity or to reduce the burden of monitoring certain expenses.

**B2.4 Personnel Costs**

Project funds may be used to compensate employees for the time and effort devoted specifically to the execution of a grant program. Employees are individuals that are entered into the subrecipient employment system, receive fringe benefits (i.e. unemployment and worker’s compensation), are eligible to participate in the subrecipient’s retirement program and are subject to subrecipient personnel policies. Individuals who do not meet these criteria are not considered employees but are considered contractual personnel. *For further information on personnel costs see section B2.4 in the OGAPP Manual.*

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in Dec. 2017 available at* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual)*)*

1. Subrecipients’ indirect costs proposal must comply with the Federal Funder’s terms as delineated in the Federal Funding Announcement. A Federal grantor may limit, allow or disallow indirect costs. The ODH subrecipient’s budget must reflect the limitations defined in the Federal Funding Announcement.
2. Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards Rule (Title 2 Code of Federal Regulations) allow subrecipients to include indirect costs in subgrant applications. Subrecipients may choose one of the following options with regard to indirect costs:
   1. Negotiate and execute an Indirect Cost Rate Agreement with the Federal Funder and base the subrecipient application budget on said agreement. In this instance, the agreement must be submitted in GMIS as an attachment to the application;
   2. If the subrecipient has not executed a federally approved Indirect Cost Rate Agreement, the subrecipient may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.
      1. Sub-part A § 200.68 of the Federal Uniform Administrative Requirements defines Modified Total Direct Cost as “….all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and sub-awards and subcontracts up to the first $25,000 of each sub-award or subcontract (regardless of the period of performance of the sub-awards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each sub-award and subcontract in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.”; or,
      2. Base the budget solely upon direct costs.
3. If a subrecipient gains a federally approved indirect cost agreement during a subgrant budget period, it may submit a budget revision during the first two quarters of the budget period.
4. The NOA amount includes any indirect costs budgeted. Including indirect costs in your subgrant application budget does not result in an increase in the Notice of Award amount.

*(Source: Shannon Coleman and David McKinnon, Ohio Department of Health on 10/21/2022 & GMIS Bulletin dated 5-11-2015)*

### Indirect Cost Rate

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

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

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

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

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

**Audit Objectives**

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

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

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

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

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

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

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

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

**2 CFR PART 200**

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

**Introduction**

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

***Cognizant Agency for Indirect Costs***

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

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

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

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

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

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

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

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

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

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

**Audit Objectives**

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

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

**Audit Objectives: Direct Costs**

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

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

**Audit Objectives: Indirect Costs**

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

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

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

**Additional Control Test Objectives for Written Procedures**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Audit Objectives**

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

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

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

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

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

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

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

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

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

### Allowable Costs – State Public Assistance Agency Costs

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

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

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

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

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

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

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

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

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

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

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

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

1. *Submission Requirements*

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

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

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

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

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

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

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

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

### Cost Principles for Nonprofit Organizations

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

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

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

### Audit Implications Summary

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

## C. CASH MANAGEMENT

### OMB Compliance Requirements

**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)

***Grants and Cooperative Agreements***

***All Non-Federal Entities***

**Written Procedure Requirements:**

Non-Federal entities must establish written procedures to implement the requirements of 2 CFR 200.305 (2 CFR 200.302(b)(6)).

***States***

US Department of the Treasury (Treasury) regulations at [31 CFR Part 205](31%20CFR%20Part%20205.pdf) implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq*.*). Subpart A of those regulations requires state recipients to enter into Treasury-State Agreements that prescribe specific methods of drawing down federal funds (funding techniques) for federal programs listed in the Assistance Listing (Catalog of Federal Domestic Assistance) that meet the funding threshold for a major federal assistance program under the CMIA. Treasury-State Agreements also specify the terms and conditions under which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR Part 205 (Subpart B), which at 31 CFR section 205.33(a) include the requirement for a state to minimize the time between the drawdown of federal funds and their disbursement for federal program purposes.

***Non-Federal Entities Other Than States***

Non-Federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means (2 CFR 200.305(b)).

What constitutes minimized elapsed time for funds transfer will depend on what payment system/method a non-federal entity uses. For example:

* The US Department of Health and Human Service (HHS) processes its financial transactions with non-federal entities through HHS’s Program Support Center (PCS), which uses the Payment Management System (PMS). Usually, payments from PMS process overnight and the funds would be available in a non-federal entity’s account the next business day. HHS also processes payments through same day wires (mostly state governments).
* Federal agencies, such as the US Department of Commerce, and US Department of the Interior, use the US Treasury’s Automated Standard Application for Payments (ASAP) system for grant and cooperative agreement payments. Non-federal entities can use the ASAP on-line process to request and receive same-day payment.

Under the advance payment method, federal awarding agency or pass-through entity payment is made to the non-federal entity before the non-federal entity disburses the funds for program purposes (2 CFR section 200.3). A non-federal entity must be paid in advance provided that it maintains, or demonstrates the willingness to maintain, both written procedures that minimize the time elapsing between the transfer of funds from the US Treasury and disbursement by the non-federal entity, as well as a financial management system that meets the specified standards for fund control and accountability (2 CFR section 200.305(b)(1)).

The reimbursement payment method is the preferred payment method if (a) the non-federal entity cannot the meet the requirements in 2 CFR section 200.305(b)(1) for advance payment, (b) the federal awarding agency sets a specific condition for use of the reimbursement or (3) if requested by the non-federal entity (2 CFR sections 200.305(b)(3) and 200.207)). The reimbursement payment method also may be used on a federal award for construction or for other construction activity as specified in 2 CFR section 200.305(b)(3), program costs must be paid by non-federal entity funds before submitting a payment request (2 CFR section 200.305(b)(3)) (i.e., the non-federal entity must disburse funds for program purposes before requesting payment from the federal awarding agency or pass-through entity).

To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional Federal cash draws (2 CFR 200.305(b)(5)).

Except for interest exempt under the Indian Self-Determination and Education Assistance Act (23 USC 450), interest earned by non-Federal entities other than States on advances of Federal funds is required to be remitted annually to the U. S. Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852. Up to $500 per year may be kept for administrative expenses (2 CFR section 200.305(b)(9)).

**Cost-Reimbursement Contracts under the Federal Acquisition Regulation**

For cost-reimbursement contracts under the FAR, reimbursement payment is the predominant method of funding. Advance payments under FAR-based contracts are rare. The FAR clause at 48 CFR section 52.216-7 applies to reimbursement payment. Paragraph (b)(1) of that clause requires that the non-federal entity request reimbursement for (a) only allocable, allowable, and reasonable contract costs that have already been paid, or (b) if the non-federal entity is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid. As defined in 48 CFR section 52.216-7(b)(1), with relation to supplies and services purchased for use on the contract, “ordinary course of business” would be in accordance with the terms and conditions of a subcontract or invoice, and ordinarily within 30 days of the request to the federal government for reimbursement.

For cost-reimbursement contracts using advance payment, the requirements are contained in the FAR clause at 48 CFR section 52.232-12. The non-federal entity is required to account for interest earned on advances from the federal government in accordance with paragraph (f) of that clause.

***Loans, Loan Guarantees, Interest Subsidies, and Insurance***

Non-Federal entities must comply with applicable program requirements for payment under loans, loan guarantees, interest subsidies, and insurance.

***Pass-through Entities***

Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and their disbursement for program purposes is minimized as required by the applicable cash management requirements in the Federal award to the recipient (2 CFR 200.305(b)(1)).

**Source of Governing Requirements**

The requirements for cash management are contained in 2 CFR 200.302(b)(6) and 200.305, [31 CFR Part 205](31%20CFR%20Part%20205.pdf), [48 CFR 52.216-7(b)](48%20CFR%2052.216-7.pdf) and [52.232-12](48CFR52.232-12.pdf), program legislation, federal awarding agency regulations, and the terms and conditions of the federal award.

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

**Agency Codification Adjustments/Exceptions:**

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

**Availability of Other Information**

Treasury’s Financial Management Service maintains a Cash Management Improvement Act web page (<http://www.fms.treas.gov/cmia/>). Information about the Department of Health and Human Services Payment Management System and the Department of the Treasury’ Automated Standard Application for Payments is available at <https://pms.psc.gov/>and [http://fms.treas.gov/asap/index.html,](http://fms.treas.gov/asap/index.html) respectively.

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

**Note:** Violations of cash management rules *alone* generally should not result in a questioned cost unless the entity spent the interest earnings related to the excess grant cash balances on hand throughout the year (these monies would be payable back to the pass-through/federal agency). Further, the interest earnings expended must exceed $25,000 in a single major program to be a questioned cost.

*(Source: AOS CFAE)*

**Part 4 OMB Program Specific Requirements**

The WIC program is subject to the provisions of the Cash Management Improvement Act (CMIA). However, rebates held in state accounts are exempt from the interest provisions of the CMIA (42 USC 1786(h)(8)(J); 7 CFR section 246.15(a)).

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### Additional Program Specific Information

**Ohio Department of Health:**

**C2.3 Cash Management**

Grant funds and project income must be accounted for and as such, must be managed in accordance with subrecipient procedures used in managing non-project funds. Grant funds must be used only for allowable costs. Any unspent balance must be returned to ODH with forty-five (45) calendar days of the invoice date. It is the responsibility of the project director to maintain communication with the agency director and the chief fiscal officer to ensure that these conditions are met.

Grant funds received as checks and/or project income must be deposited promptly, no later than three (3) calendar days after the date of receipt.

**C2.6 Co-Mingling of Funds**

Physical segregation of cash deposits or the establishment of any eligibility requirements for funds, which are provided, to a subrecipient is not required. However, the accounting systems of all subrecipients must ensure that project funds are not co-mingling with other federal or state funds. Each grant must be accounted for separately. Subrecipients are prohibited from co-mingling funds on either a project-by-project basis or a program-by-program basis.

Funds specifically budgeted and/or received for one project may not be used to support another. If a subrecipient’s accounting system cannot comply with this requirement, the subrecipient shall establish a system to account adequately for each project separately.

**D1.5 Interest Income**

Income earned by the subrecipient on the subrecipient’s own financial resources may be used to support the program as program funds. Interest earned on federal funds must be treated according to the federal regulations governing the program funding source (e.g. [7 CFR 3016](https://www.gpo.gov/fdsys/granule/CFR-2012-title7-vol15/CFR-2012-title7-vol15-part3016/content-detail.html) for non-entitlement USDA funded programs, [7 CFR 3015](https://www.gpo.gov/fdsys/granule/CFR-2012-title7-vol15/CFR-2012-title7-vol15-part3015) for USDA entitlement programs, or OMB Circulars A-102 or A-110).

Governmental recipients other than States - Except as provided in Uniform Guidance, for all federal grant awards and sub-awards, any interest earned by local governments or Indian tribal governments on advances of federal funds that exceeds $500 per year in the aggregate must be remitted at least quarterly. (The year is based on the recipient’s or subrecipient’s fiscal year.)

**D2.0 Grant Payments**

Grant payments will be made in a timely manner to support project operations and to minimize cash flow problems of subrecipient agencies.

Actual grant payments are based on the approved budget in the project application or its subsequent revision; state or federal grant conditions; cash needs; and adjustments made based on the most recent expenditure report, grant reduction, or audit findings.

**D2.1 Payment Process**

All payments of funds by ODH to the subrecipient are in accordance with the conditions of the grant.

Payments are usually based on a payment schedule and adjusted to actual expenditures or on a cost reimbursement basis. Payments are adjusted according to the proportion of required matching funds contributed and the grant cash balances.

All payments are made through electronic funds transfer (EFT) via Ohio Administrative Knowledge System (OAKS).

Note: For County Based Agencies: The County Auditor can give the subrecipient the access information for the OAKS system.

The project director receives a transmittal notice in the mail as verification of the payment. After the initial payment is issued, specific information detailing the amount, the period covered and the date paid will display in the GMIS “Payments” link. Subsequent payment information will display in the “Payments” link as future payments are made.

1. Payment cycle is monthly or quarterly in conjunction with the reporting period unless stated otherwise in the Solicitation.

**D2.2 Payment Formula**

Subrecipients can select either monthly or quarterly reimbursement from ODH.

*Monthly*

|  |  |
| --- | --- |
| Period | Report Due Date |
| January 1 – 31 | February 10 |
| February 1 – 28 or 29 | March 10 |
| March 1 – 31 | April 10 |
| April 1 – 30 | May 10 |
| May 1 – 31 | June 10 |
| June 1 – 30 | July 10 |
| July 1 – 31 | August 10 |
| August 1 – 31 | September 10 |
| September1 – 30 | October 10 |
| October 1 – 31 | November 10 |
| November 1 – 30 | December 10 |
| December 1 – 31 | January 10 |

*Quarterly*

|  |  |
| --- | --- |
| Period | Report Due Date |
| January 1 – March 31 | April 10 |
| April 1 – June 30 | July 10 |
| July 1 – September 30 | October 10 |
| October 1 – December 31 | January 10 |

**This requirement tested in Section L—Reporting when applicable per OMB Pick 6.**

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in Dec. 2017 available at* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual)*)*

### 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. For grants and cooperative agreements to States, determine whether States have complied with the terms and conditions of the Treasury-State Agreement or Subpart B procedures.

3. For grants and cooperative agreements to non-Federal entities other than States, determine whether payment methods minimized the time elapsing between transfer of Federal funds from the U. S. Treasury or the pass-through entity and the disbursement by the non-Federal entity and any interest earned on advances was properly remitted.

4. For grants and cooperative agreements to non-Federal entities that are paid on a reimbursement basis, supporting documentation shows that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

5. Determine whether non-Federal entities that receive reimbursement payments under cost-reimbursement contracts under the FAR and cost-reimbursement subcontracts under these contracts requested payments in compliance with [48 CFR section 52.216-7(b)](48%20CFR%2052.216-7.pdf).

6. Determine whether non-Federal entities complied with applicable program requirements for loans, loan guarantees, interest subsidies, and insurance.

7. Determine whether pass-through entities implemented procedures to ensure that payments to subrecipients minimized the time elapsing between transfer of Federal funds from the pass-through entity to the subrecipient and the disbursement of such funds for program purposes by the subrecipient, as required by applicable cash management requirements in the Federal award to the recipient.

*(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 a written policy for the requirements outlined in 2 CFR 200.302(b)(6) *Payments*
* Document whether the non-Federal entity established written procedures consistent with the requirements in 2 CFR 200.302(b)(6) to minimize the time elapsing between the transfer of funds.
* 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)(6).
  + 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.

|  |
| --- |
| **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):** |
| **Note**: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.  **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.** |
| *Grants and cooperative agreements to non-Federal entities other than States*  1. Review trial balances related to Federal funds for unearned revenue. If unearned revenue balances are identified, consider if such balances are consistent with the requirement to minimize the time between drawing and disbursing Federal funds.  2. Select a sample of advance payments and verify that the non-Federal entity minimized the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity.  3. When non-Federal entities are funded under the reimbursement method, select a sample of transfers of funds from the U.S. Treasury or pass-through entity and trace to supporting documentation and ascertain if the entity paid for the costs for which reimbursement was requested prior to the date of the reimbursement request (2 CFR 200.305(b)(3)).  4. When a program receives program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, or interest earned on such funds; perform tests to ascertain if these funds were disbursed before requesting additional Federal cash draws (2 CFR 200.305(b)(5)).  5. Review records to determine if interest in excess of $500 per year was earned on Federal cash draws. If so, determine if it was remitted annually to the Department of Health and Human Services, Payment Management System (2 CFR 200.305(b)(9)).  *Cost-reimbursement contracts under the Federal Acquisition Regulation*  6. Perform tests to ascertain if the non-Federal entity requesting reimbursement (a) disbursed funds prior to the date of the request, or (b) meets the conditions allowing for the request for costs incurred, but not necessarily paid for, i.e., ordinarily within 30 days of the request ([48 CFR section 52.216-7(b](48%20CFR%2052.216-7.pdf))).  *Loans, Loan Guarantees, Interest Subsidies, and Insurance*  7. Perform tests to ascertain if the non-Federal entity complied with applicable program requirements.  *All Pass-Through Entities*  8. For those programs where a pass-through entity passes Federal funds through to subrecipients, select a representative sample of subrecipient payments and ascertain if the pass-through entity implemented procedures to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized (2 CFR 200.305(b)(1)). |

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

## E. ELIGIBILITY

### OMB Compliance Requirements

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

**Source of Governing Requirements**

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

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

**Part 4 OMB Program Specific Requirements**

**1. Eligibility for Individuals**

Applicants for WIC program benefits are screened at WIC clinic sites to determine their WIC eligibility. To be certified eligible, they must meet the following eligibility criteria (7 CFR sections 246.7(c), (d), (e), (g), and (l)):

a. *Categorical* – Eligibility is restricted to pregnant, postpartum, and breastfeeding women, infants, and children up to their fifth birthday (7 CFR sections 246.2 (definition of each category) and 246.7(c)).

b. *Identity and Residency* – Except in limited circumstances, WIC applicants must be physically present for eligibility screenings and provide proof of identity and residency. An applicant also must meet the state agency’s residency requirement. Except in the case of ITOs, the applicant must reside in the jurisdiction of the state. ITOs may require applicants to reside within their jurisdiction. All state agencies may designate service areas for any local agency and may require that applicants reside within the service area. A state agency must establish procedures, in accordance with guidance from FNS, to prevent the same individual from receiving duplicate benefits through participation at more than one local agency. Documentation of these determinations may consist of descriptions of documents evidencing the applicants’ identities and residency (e.g., notations in the participant’s file identifying specific documents that local agency staff have viewed and found acceptable), copies of the documents themselves, and/or the applicants’ written statements of identity and residency when no other documentation exists. Certification procedures prescribed by the state agency set conditions for relying on these different forms of documentation (42 USC 1786(f)(23); 7 CFR sections 246.7(c)(1) and (c)(2)(i) and 246.7(i)(3) and (4)).

1. *Income* – An applicant must meet an income standard established by the state agency or be determined to be automatically (adjunctively) income- eligible based on documentation of his/her eligibility, or certain family members’ eligibility, for the following federal programs: (1) Temporary Assistance for Needy Families; (2) Medicaid; or (3) Supplemental Nutrition Assistance Program (formerly the Food Stamp Program). State agencies also may determine an individual automatically income-eligible based on documentation of his/her eligibility for certain state- administered programs. Documentation of income eligibility determinations may consist of descriptions of documents evidencing the sources and gross amounts of all income, such as wages, disability or Social Security/SSI payments, child support, alimony, etc., received by applicants and/or any members of their households (e.g., notations in the participant’s file identifying specific documents that local agency staff have viewed and found acceptable), copies of the documents themselves, and/or the applicant’s signed affidavit that his/her household income does not exceed the current WIC income eligibility guidelines when no other documentation exists. With limited exceptions, applicants who are not adjunctively or automatically income-eligible for WIC must provide documentation of family income at their initial or subsequent certification (42 USC 1786(d)(3)(D); 7 CFR sections 246.2 (definition of “family”), 246.7(c), and 246.7(d)).

*Income Guidelines* – The income standard established by the state agency may be up to 185 percent of the poverty income guidelines issued annually by HHS or state or local income guidelines used for free and reduced- price health care. However, in using health care guidelines, the income guidelines for WIC must be between 100 and 185 percent of the poverty income guidelines. These WIC income guidelines are issued each year in the Federal Register and are available on FNS’s WIC website at http://www.fns.usda.gov/wic. Local agency income guidelines may vary as long as they are based on the guidelines used for free and reduced-price health care (7 CFR section 246.7(d)(1)). Income determinations based on state or local health care guidelines are subject to the definition of “family” in 7 CFR section 246.2, the definition of “income” in 7 CFR section 246.7(d)(2)(ii), and the exclusions from income in 7 CFR section 246.7(d)(2)(iv) (7 CFR sections 246.2 and 246.7(d)(2)).

*Income Eligibility Determination* – Except for applicants determined to be automatically income-eligible, income is based on gross income and other cash readily available to the family or economic unit. Certain federal payments and benefits, listed at 7 CFR section 246.7(d)(2)(iv), are excluded from the computation of income. The following payments to members of the Armed Forces and their families also are excluded: Family Subsistence Supplemental Allowance (7 CFR section 246.7(d)(2)(iv)(D)(33)); combat pay included under Chapter V of Title 37 (42 USC 1758(b)), as amended by Section 734(b) of Pub. L. No. 111-80.

Payments to Filipino veterans under the Filipino Veterans Equity Compensation Fund (section 1002 of American Recovery and Reinvestment Act (ARRA), 123 Stat. 200) are also excluded. In addition, the state agency may exclude:

(1) Housing allowances received by military services personnel residing off military installations or in privatized housing, whether on or off-base (7 CFR section 246.7(d)(2)(iv)(A)(1)); and

(2) Any cost-of-living allowance provided to military personnel who are on duty outside the contiguous states of the United States (7 CFR section 246.7(d)(2)(iv)(A)(2)).

At a minimum, in-stream (away from home base) migrant farm workers and their families with expired Verification of Certification cards shall meet the state agency’s income standard provided that the income of the family is determined at least once every 12 months (7 CFR section 246.7(d)(2)(ix)).

An ITO state agency, or a state agency acting on behalf of an ITO, may submit reliable data that proves to FNS that the majority of Indian households in a local agency service area have incomes at or below the state agency’s income guidelines. In such cases, FNS may authorize the state agency to permit the use of an abbreviated income screening process whereby an applicant affirms, in writing, that his/her family income is within the state agency’s prescribed guidelines (7 CFR section 246.7(d)(2)(viii)).

State agencies may instruct local agencies to consider family income over the preceding 12 months or the family’s current rate of income, whichever indicator more accurately reflects the family’s income status. To provide more consistency and accountability, WIC has encouraged state agencies to define a family’s current rate of income as all income received by the household during the month (30 days) prior to the date the application for WIC benefits is made, or, if the income assessment is being done prospectively, all income that will be available to the family in the next 30 days (see WIC Policy Memorandum No. 2013-3, Income Eligibility Guidance, issued April 26, 2013, which is available at <https://www.fns.usda.gov/wic/income-eligibility-guidance> (7 CFR sections 246.7(d)(2)(i) and (v)).

d. *Nutritional Risk* – A competent professional authority (e.g., physician, nutritionist, registered nurse, or other health professional) must determine that the applicant is at nutritional risk. While the broad guidelines for determining nutritional risk are set forth in WIC legislation and regulations, the specific allowable nutritional risk criteria are defined in WIC policy guidance, which is updated periodically. Each state agency may choose which allowable nutritional risk criteria will be used to determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant’s height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the state agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority who is not on the WIC staff (7 CFR sections 246.2 (definitions of “competent professional authority” and “nutritional risk”) and 246.7(e)).

When an applicant meets all eligibility criteria, he/she is determined by WIC clinic staff to be eligible for program benefits. Certification periods are assigned to each participant based on categorical status for women, infants, and children (7 CFR section 246.7(g)).

A WIC local agency assigns each eligible person a priority classification according to the classification system described in 7 CFR section 246.7(e)(4). A person’s priority assignment reflects the severity of his/her nutritional risk. If the local agency cannot immediately place the person on the program for lack of an available caseload slot, the person is placed on a waiting list. Caseload vacancies are filled from the waiting list in priority classification order. State agencies are expected to target program outreach and caseload management efforts toward persons at greatest nutritional risk (i.e., those in the highest priority classifications).

Pregnant women are certified for the duration of their pregnancy and for up to six weeks postpartum. Breastfeeding women may be certified approximately every six months, or up to one year postpartum or until the woman ceases breastfeeding, whichever occurs first (7 CFR section 246.7(g)(1)). Infants are certified at intervals of approximately six months, except that infants under six months of age may be certified for a period extending up to the child’s first birthday, provided the quality and accessibility of health care services are not diminished. Children are certified for six-month intervals ending with the last day of the month in which the child reaches the fifth birthday. State agencies also have the option to certify children for a period of one year if the state agency ensures that the child receives the required health and nutrition assessments (7 CFR section 246.7(g)(1)). Non-breastfeeding women are certified for up to six months postpartum. All categories of participants may be certified up to the last day of the last month of the certification period (7 CFR section 246.7(g)(1)).

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

**3. Eligibility for Subrecipients – State Level Only**

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### Additional Program Specific Information

**Ohio Department of Health:**

In order to be eligible for WIC, the gross countable income of the economic unit, of which the applicant/participant is a member, must be less than or equal to the Ohio WIC program income guidelines for economic unit size provided in the following chart. WIC income guidelines are updated each year.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Economic Unit | Annually | Monthly | Twice Monthly | Biweekly | Weekly |
| 1 | $23,828 | $1,986 | $993 | $917 | $459 |
| 2 | 32,227 | 2,686 | 1,343 | 1,240 | 620 |
| 3 | 40,626 | 3,386 | 1,693 | 1,563 | 782 |
| 4 | 49,025 | 4,086 | 2,043 | 1,886 | 943 |
| 5 | 57,424 | 4,786 | 2,393 | 2,209 | 1,105 |
| 6 | 65,823 | 5,486 | 2,743 | 2,532 | 1,266 |
| 7 | 74,222 | 6,186 | 3,093 | 2,855 | 1,428 |
| 8 | 82,621 | 6,886 | 3,443 | 3,178 | 1,589 |

Revised 7/21

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Economic Unit | Annually | Monthly | Twice Monthly | Biweekly | Weekly |
| 1 | $25,142 | $2,096 | $1,048 | $967 | $484 |
| 2 | 33,874 | 2,823 | 1,412 | 1,303 | 652 |
| 3 | 42,606 | 3,551 | 1,776 | 1,639 | 820 |
| 4 | 51,338 | 4,279 | 2,140 | 1,975 | 988 |
| 5 | 60,070 | 5,006 | 2,503 | 2,311 | 1,156 |
| 6 | 68,802 | 5,734 | 2,867 | 2,647 | 1,324 |
| 7 | 77,534 | 6,462 | 3,231 | 2,983 | 1,492 |
| 8 | 86,266 | 7,189 | 3,595 | 3,318 | 1,659 |

Revised 7/22

*(Source:* [*Ohio WIC Program Eligibility website*](https://odh.ohio.gov/know-our-programs/women-infants-children/resources/ohio-wic-program-eligibility) *on the Ohio WIC Program Income Guidelines tab)*

### Audit Objectives and Control Testing

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

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

**Audit Objectives**

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

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

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

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

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

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

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

### Suggested Audit Procedures – Compliance

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

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

## H. PERIOD OF PERFORMANCE

**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

A non-Federal entity may charge only allowable costs incurred during the approved budget period of a federal award’s period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity sections 2 CFR 200.308, 200.309, and 200.403(h). A period of performance may contain one or more budget periods.

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all financial obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award (2 CFR 200.344(b)). When used in connection with a non-Federal entity’s utilization of funds under a Federal award, “financial obligations” means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (2 CFR 200.1\_Obligations).

Period of Performance requirements for cost reimbursement contracts subject to the FAR are contained in the terms and conditions of the contract.

**Source of Governing Requirements**

The requirements for the period of performance are contained in 2 CFR 200.1 definitions for “budget period,” “financial obligations,” “period of performance”, 2 CFR 200.308 Revisions of budget and program plans, 2 CFR 200.309 Modifications to period of performance, 2 CFR 200.344 (closeout), 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. *Spend-Forward Option* – A state agency may spend NSA funds up to an amount equal to 3 percent of its total WIC formula grant for NSA costs of the following federal fiscal year. With prior approval from its FNS regional office, the state agency may also spend NSA funds, in an amount that does not exceed one-half of 1 percent of its total WIC formula grant, for management information systems development costs during the following federal fiscal year. Food funds may not be “spent forward” (42 USC 1786(i)(3)(A)(ii)(I); 7 CFR section 246.16(b)(3)(ii)).

2. *Backspend Option* – A state agency may:

a. Spend up to 1 percent of the food component of its grant for food costs of the federal fiscal year preceding the fiscal year for which the grant was awarded. This backspend authority may be raised as high as 3 percent with prior approval from FNS.

b. Spend up to 1 percent of its NSA grant component for food and/or NSA costs of the federal fiscal year preceding the fiscal year for which the grant was awarded (7 CFR section 246.16(b)(3)(i)).

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

### Additional Program Specific Information

**Ohio Department of Health:**

**B2.9 – Obligations**

Outstanding Obligations can only be reported on the twelfth monthly or fourth quarterly expenditure report unless the subgrant program extends past 12 months. Outstanding obligations at the end of a fiscal year include accounts payable for authorized services and/or goods incurred during the funded fiscal year. This includes costs for employee services during the final pay period of a fiscal year or for equipment and supplies that have been ordered and delivered during the fiscal year and paid within the forty-five day liquidation period following the completion of the grant period.

The total amount of Outstanding Obligations listed on the twelfth monthly/fourth quarterly expenditure report is the maximum amount that can be listed as current expenditures upon submission of the Final Expense Report. Any additional amounts of current expenditures or any additional outstanding obligations will not be accepted or paid with program funds.

ODH staff do not have the ability to disapprove monthly or quarterly expenditure reports that do not include obligations. Subrecipients who do not list all of their obligations on the twelfth month or fourth quarter report will be required to submit their general ledgers and invoices to support any additional costs listed on the final report that was not included in the obligations on the twelfth month or fourth quarter report.

**D2.3 Cash Balance**

The unobligated balance of grant funds at the end of the grant period (usually the fiscal year) is lapsed and lost to the project. Any cash balance at the end of the grant period must be returned to ODH within forty-five (45) days of the invoice date.

A cash balance is the difference between funds received and allowable expenditures. An unobligated balance is the difference between the cash balance and outstanding obligations. When all outstanding obligations are liquidated and paid or canceled, the unobligated balance will equal the cash balance.

Payments are based on the cash balance in order to minimize grant funds in the field. The same applies to the unobligated balance of project income when specified in the grant. The unobligated balance will increase when obligations are liquidated at a lower amount than estimated. The balance of funds realized after obligations are liquidated must be returned to ODH immediately with the submission of the final expenditure report.

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in Dec. 2017 available at* [*https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/wps/portal/gov/odh/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual)*)*

The three-year program will begin October 1, 2019 and end on September 30, 2022. The one-year budget period for this application is October 1, 2019 through September 30, 2020.

*(Source: Section I, Paragraph J of the* [*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Solicitation for Fiscal Year 2020*](https://odh.ohio.gov/wps/wcm/connect/gov/72783b6b-87bc-4fca-b432-54847e926315/WA20+WIC.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE.Z18_M1HGGIK0N0JO00QO9DDDDM3000-72783b6b-87bc-4fca-b432-54847e926315-mIEXG08)*)*

This Solicitation pertains to budget period: 10/1/2020 through 9/30/2021 of the total project period, 10/1/2019 through 9/30/2022.

*(Section I, Paragraph A of the* [*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Solicitation for Fiscal Year 2021*](https://odh.ohio.gov/wps/wcm/connect/gov/febb5c8c-31ac-449b-add5-ee2213f004da/WA21+WIC+Administration.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18_M1HGGIK0N0JO00QO9DDDDM3000-febb5c8c-31ac-449b-add5-ee2213f004da-n5mrzmh)*)*

This Solicitation pertains to budget period: 10/1/2021 through 9/30/2022 of the total project period, 10/1/2019 through 9/30/2022.

*(Section I, Paragraph A of the* [*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Solicitation for Fiscal Year 2022*](https://odh.ohio.gov/wps/wcm/connect/gov/6ece7352-10e1-4174-9f77-3268e2d8eb3f/WA22+WIC+Administration.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE.Z18_M1HGGIK0N0JO00QO9DDDDM3000-6ece7352-10e1-4174-9f77-3268e2d8eb3f-nAedmoH)*)*

### 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 the Federal award was only charged for: (a) allowable costs incurred during the period of performance; or (b) costs incurred prior to the date the Federal award was made that were authorized by the Federal awarding agency or pass-through entity.

3. Determine whether financial obligations were liquidated within the required time period.

*(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

|  |
| --- |
| **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. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of performance.  2. For Federal awards with performance period beginning dates during the audit period, test transactions for costs recorded during the beginning of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the Federal awarding agency or the pass-through entity.  3. For Federal awards with performance period ending dates during the audit period, test transactions for costs recorded during the latter part and after the period of performance and verify that the costs had been incurred within the period of performance.  4. For Federal awards with performance period ending dates during the audit period, test transactions for Federal award costs for which the obligation had not been liquidated (payment made) as of the end of the period of performance and verify that the liquidation occurred within the allowed time period.  5. Test adjustments (e.g., manual journal entries) for Federal award costs and verify that these adjustments were for transactions that occurred during the period of performance. |

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

## I. PROCUREMENT AND SUSPENSION AND DEBARMENT

### OMB Compliance Requirements – Procurement

**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)

***Procurement—Grants and Cooperative Agreements***

*States*

When procuring property and services, states must use the same policies and procedures they use for procurements from their non-federal funds (2 CFR section 200.317).

*Non-Federal Entities Other than States*

Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at 2 CFR 200.317 - 200.327. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR Part 200. A non-Federal entity must:

1. Meet the general procurement standards in 2 CFR 200.318, which include oversight of contractors’ performance, maintaining written standards of conduct for employees involved in contracting, awarding contracts only to responsible contractors, and maintaining records to document history of procurements.

2. Conduct all procurement transactions in a manner providing full and open competition, in accordance with 2 CFR 200.319.

3. Use the micro-purchase and small purchase methods only for procurements that meet the applicable criteria under 2 CFR 200.320(a)(1) and (2). Under the micro-purchase method, the aggregate dollar amount does not exceed $10,000 ($2,000 in the case of acquisition for construction subject to the Wage Rate Requirements (Davis-Bacon Act)). Small purchase procedures are used for purchases that exceed the micro-purchase amount but do not exceed the simplified acquisition threshold ($250,000). Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable (2 CFR 200.320(a)). If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources (2 CFR 200.320(b)).

4. For acquisitions exceeding the simplified acquisition threshold, the non-Federal entity must use one of the following procurement methods: the sealed bid method if the acquisition meets the criteria in 2 CFR 200.320(b); the competitive proposals method under the conditions specified in 2 CFR 200.320(b)(2); or the noncompetitive proposals method (i.e., solicit a proposal from only one source) but only when one or more of four circumstances are met, in accordance with 2 CFR 200.320(c).

5. Perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications (2 CFR 200.323(a)). The cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used (2 CFR 200.323(b)).

6. Ensure that every purchase order or other contract includes applicable provisions required by 2 CFR 200.326. These provisions are described in Appendix II to 2 CFR Part 200, “Contract Provisions for Non-Federal Entity Contracts Under Federal Awards.”

***Procurement—Cost-Reimbursement Contracts under the Federal Acquisition Regulation***

When awarding subcontracts, non-Federal entities receiving cost-reimbursement contracts under the Federal Acquisition Regulation (FAR) must comply with the clauses at [48 CFR 52.244-2](48%20CFR%2052.244-2.pdf) (consent to subcontract), [52.244-5](48CFR52.244-5.pdf) (competition), [52.203-13](48%20CFR%2052.203-13.pdf) (code of business ethics), [52.203-16](48%20CFR%2052.203-16.pdf) (conflicts of interest), and [52.215.12](48%20CFR%2052.215-12.pdf) (cost or pricing data); and the terms and conditions of the contract. The FAR defines “subcontracts” as a contract, i.e., a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them, entered into by a subcontractor to furnish supplies or services for performance of a prime contract or a subcontract. It includes, but is not limited to, purchase orders, and changes and modifications to purchase orders.

**Source of Governing Requirements – Procurement**

The requirements that apply to procurement under grants and cooperative agreements are contained in 2 CFR 200.317 - 200.327, program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements that apply to procurement under cost-reimbursement contracts under the FAR are contained in 48 CFR Parts [03](48%20CFR%20Part%203.pdf), [15](48%20CFR%20Part%2015.pdf), [44](48%20CFR%20Part%2044.pdf) and the clauses at [48 CFR 52.244-2](48%20CFR%2052.244-2.pdf), [52.244-5](48CFR52.244-5.pdf), [52.203-13](48%20CFR%2052.203-13.pdf), [52.203-16](48%20CFR%2052.203-16.pdf), and [52.215-12](48%20CFR%2052.215-12.pdf); agency FAR Supplements; and the terms and conditions of the contract.

*(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).

### OMB Compliance Requirements – Suspension and Debarment

**Auditors will need to review Appendix II in the link under Source of Governing requirements to determine where the agency codified 2 CFR Part 180. Citations of non-compliance must start with the agencies codification of 2 CFR Part 180.**

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in [2 CFR 180.220](2%20CFR%20Part%20180.pdf). All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in [2 CFR 180.215](2%20CFR%20Part%20180.pdf).

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in [2 CFR 180.995](2%20CFR%20Part%20180.pdf) and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/> (click on Search Record, then click on Advanced Search-Exclusions) (**Note:** The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity ([2 CFR 180.300](2%20CFR%20Part%20180.pdf)).

Non-Federal entities receiving contracts from the Federal Government are required to comply with the contract clause at [48 CFR 52.209-6](48%20CFR%2052.209-6.pdf) before entering into a subcontract that will exceed $30,000, other than a subcontract for a commercially available off-the-shelf item.

**Source of Governing Requirements – Suspension and Debarment**

The requirements for nonprocurement suspension and debarment are contained in OMB guidance in [2 CFR Part 180](2%20CFR%20Part%20180.pdf), which implements Executive Orders 12549 and 12689, “Debarment and Suspension;” Federal awarding agency regulations in Title 2 of the CFR adopting/implementing the OMB guidance in 2 CFR Part 180; program legislation; and the terms and conditions of the award.

Most of the Federal agencies have adopted or implemented 2 CFR Part 180, generally by relocating their associated agency rules in Title 2 of the CFR. [Appendix II to the Supplement](OMB_Appendix%20II.pdf) includes the current CFR citations for all agencies adoption or implementation of the nonprocurement suspension and debarment guidance.

Government-wide requirements related to suspension and debarment and doing business with suspended or debarred subcontractors under cost reimbursement contracts under the FAR are contained in [48 CFR 9.405-2(b)](48%20CFR%209.405-2.pdf) and the clause at [48 CFR 52.209-6](48%20CFR%2052.209-6.pdf).

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

**Part 4 OMB Program Specific Requirements**

There are no program specific requirements for this compliance section.

*(Source: 2022 OMB Compliance Supplement, Part 4, U.S. Department of Agriculture, AL 10.557 Special Supplemental Nutrition Program For Women, Infants, and Children (WIC))*

**Written Procedure Requirements:**

2 CFR 200.318(c)(1) requires non-Federal entities maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.

2 CFR 200.318(c)(2) requires non-Federal entities maintain written standards of conduct covering organizational conflicts of interest when the non-federal entity has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian tribe.

2 CFR 200.320(d)(3) requires non-federal entities to have a written method for conducting technical evaluations of the competitive proposals received and for selecting contract recipients.

2 CFR 200.319(c) requires that the written procedures required by 2 CFR 200.320(d)(3) ensure all solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured and identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

*(Source: CFAE/eCFR)*

**NOTE:**

**If an internal control deficiency or noncompliance is noted with Suspension and Debarment requirements, AoS auditors *must* submit a consult via the FACCR specialty in Spiceworks. IPAs should review the Federal agency adoption of the Suspension and Debarment requirements as well as the specific terms and conditions in the grant agreement to ensure the comment is accurate.**

*(Source: CFAE)*

### Additional Program Specific Information

**Ohio Department of Health:**

**B1.3 Federal Suspension and/or Debarment**

Organizations or individuals that are suspended or debarred cannot apply for or be paid from ODH grants during the period of the suspension or debarment. In the event that an agency is debarred, another entity from within the county, an adjoining county, or regional provider can compete for the program dollars. As a result, the entity awarded the grant, cannot contract and/or hire the debarred agency in any capacity. Any expenditure charged to an ODH grant for such individuals or agencies will be disallowed.

Applicants are required to disclose to ODH if any of the following conditions apply to the agency or agency personnel:

1. Applicant has been convicted of or had a civil judgment rendered against them within the three year period preceding the application for ODH funding for any of the following:

a. Fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public transaction or contract under a public transaction;

b. Violation of a federal or state antitrust statute;

c. Embezzlement, theft, forgery, bribery, falsification or destruction of records, or

d. False statements or receipt of stolen property.

2. Applicant is presently indicted or otherwise criminally or civilly charged by a governmental entity (federal, state, or local) with the commission of any of the offenses enumerated above.

3. Applicant has had any public transaction (federal, state or local) terminated for cause or default within the three-year period preceding the application for ODH funding.

**C2.2 Procurement Standards**

Procurement is the purchase of merchandise or services at the optimum total cost in the correct amount and quality. These goods and services must be purchased at the correct time and location for the express gain or use of the project within the designated period. This process not only involves the purchasing of commodities but also quality and quantity checks.

Subrecipients may use their own procurement policies when using project funds for the procurement of equipment, supplies, and services provided they are made in accordance with the standards in this section and the applicable CFR.

The subrecipient is responsible for any contract it enters into on behalf of the grant-supported project.

Neither ODH nor the Federal Government assumes any liability arising from contracts, agreements, or obligations entered into by the subrecipient.

When procuring for project activities, the subrecipient shall maintain a code or standard of conduct for its officers, employees, or agents that shall include provisions for disciplinary actions for its violation.

For governmental subrecipients, such disciplinary actions are required only to the extent otherwise permissible under the government's laws, rules, or regulations and shall provide for action to be taken against contractors or their agents when they violate the code or standard.

Subrecipient officers, employees, or agents shall neither solicit nor accept gratuities, favors or anything of monetary value from ODH contractors or potential contractors. This is not intended to preclude legitimate institutional fund-raising activities.

No employee, officer, or agent of a subrecipient shall participate in the selection, grant, or administration of a contract subject to this section where any of the following has a financial interest in that contract:

1. The employee, officer or agent
2. Any member of his or her immediate family
3. His or her partner
4. An organization in which any of the above individuals are an officer, director, or employee
5. A person or organization with whom any of the above individuals is negotiating or has any arrangement concerning prospective employment

The subrecipient should be alert to organizational conflicts of interests or noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. All procurement transactions shall be conducted in a manner that provides open and free competition to the maximum extent practicable.

The Department of Administrative Services (DAS) establishes State Term Schedules with vendors for various supplies and services. Political subdivisions, state universities, vocational schools, community colleges, and other institutions, as defined in Section 125.04(B) of the Ohio Revised Code may use a state term schedule contract. For those agencies that do not have authority to use the STS contracts, but may have a similar practice available within the agency; must thoroughly document such practice in an agency policy.

Solicitations by the subrecipient shall clearly set forth all requirements that the bidder must fulfill in order for the bid to be evaluated. Bids and offers made by vendors for contracts in response to the subrecipient's solicitation must be evaluated based on the lowest bid or offer that provides the most adequate quality of goods or services, which will ensure optimal utilization of grant funds per unit value. Factors such as discounts, transportation costs, and taxes should be considered in determining the lowest bid. Any bid may be rejected when it is in the project's interest to do so, and, in the case of governmental subrecipients, such rejections are in accordance with applicable rules, laws or regulations.

The subrecipient shall establish procurement procedures that provide for the following:

1. Assurances that preclude unnecessary duplication of purchases and/or contracts. The subrecipient shall analyze alternatives to the procurement (such as leasing) to determine the most economical and practical procurement. This analysis should be documented.

2. Solicitations for goods and services must be based on clear and accurate descriptions of the technical requirements for the material, product, or service to be procured. In competitive procurements, such descriptions shall not contain features, which unduly restrict competition.

3. Preferences and opportunities in the procurement of goods and services shall be given to Indians, Indian organizations, and Indian-owned economic enterprises where applicable to Section 7 (b) of the Indian Self-determination and Education Assistance Act (25 U.S.C. 450e (b)).

4. Positive efforts shall be made by procuring parties to utilize small business and minority-owned business sources of supplies and services.

5. The type of procuring instruments used (e.g. fixed-price contracts, cost reimbursable contracts, purchase orders, incentive contracts) shall be determined by the subrecipient but must be appropriate for the particular procurement and for promoting the best interest of the project. The "cost-plus-a-percentage-of cost" method of contracting shall not be used.

6. Contracts shall be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of a proposed procurement. Consideration shall be given to such matters as contractor integrity, record of past performance, financial and technical resources and accessibility to other necessary resources.

7. Prior approval is needed from the Program administering the project in consultation with the ODH Chief Financial Officer when the aggregate expenditure is expected to be greater than or equal to $40,000, when a sole source contract is proposed, or when a non-governmental subrecipient proposes to grant a contract after seeking competition but only receiving one bid.

8. Non-governmental subrecipients should make some form of price or cost analysis in connection with every negotiated procurement action. Price analysis may include the comparison of submitted price quotations, market prices, and similar indices, along with discounts. Cost analysis is done to determine reasonableness, allocability, and allowability.

9. The subrecipient's records and files for purchases in excess of or equal to $40,000 shall include the basis for contractor selection; justification for lack of competition when competitive bids or offers are not obtained; and basis for grant cost or price.

10. A system for contract administration shall be maintained to ensure contractor conformance with terms, conditions, and specifications of the contracts, and to ensure adequate and timely follow-up of all purchases.

Governmental subrecipients shall use formal advertising in making procurements whenever practicable or feasible. When formal advertising is not practicable or feasible, procurements may be negotiated with prior written approval from GSU, subject to the conditions of 45 CFR Part 74, Appendix A.

Competition shall be obtained to the maximum extent practicable whether procuring by advertising or negotiation. All negotiated procurement in excess of $4,000, a government subrecipient shall have in its procurement files and records written justification for the use of the negotiation in lieu of advertising.

*(Source: Ohio Department of Health Grants Administration Policies and Procedures (OGAPP) updated in Dec. 2017 available at* [*https://odh.ohio.gov/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual*](https://odh.ohio.gov/about-us/funding-opportunities/resources/grants-administrative-policies-and-procedures-ogapp-manual)*)*

### 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 procurements under federal awards were made in compliance with applicable federal regulations and other procurement requirements specific to an award or subaward.

3. For covered transactions determine whether the non-federal entity verified that entities are not suspended, debarred, or otherwise excluded.

*(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 a written policy for the requirements outlined in 2 CFR 200.318(c)(1), 2 CFR 200.318(c)(2), 2 CFR 200.320(d)(3), and 2 CFR 200.319(c)*.*
* Document whether the non-Federal entity established written procedures consistent with the following requirements:
  + 2 CFR 200.318(c)(1) for employee conflicts of interest.
  + 2 CFR 200.318(c)(2) for organizational conflicts of interest.
  + 2 CFR 200.320(d)(3) for selection and awarding of competitive contracts.
  + 2 CFR 200.319(c) for minimum evaluation criteria for bids and proposals.
* 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 200.318(c)(1), 2 CFR 200.318(c)(2), 2 CFR 200.320(d)(3), and 2 CFR 200.319(c).
  + 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 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.** |
| *(Procedures 2 – 5 apply to non-Federal entities other than States.)*  2. Obtain the entity’s procurement policies and verify that the policies comply with the compliance requirements highlighted above.  3. Verify that the entity has written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts (2 CFR 200.318(c) and [48 CFR 52.203-13](48%20CFR%2052.203-13.pdf) and [52.203-16](48%20CFR%2052.203-16.pdf)).  4. Ascertain if the entity has a policy to use statutorily or administratively imposed in‑State or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference (2 CFR 200.319(c)).  5. Select a sample of procurements and perform the following procedures:  a. Examine contract files and verify that they document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price (2 CFR 200.318(i) and [48 CFR Part 44](48%20CFR%20Part%2044.pdf) and [52.244-2](48%20CFR%2052.244-2.pdf)).  b. For grants and cooperative agreements, verify that the procurement method used was appropriate based on the dollar amount and conditions specified in 2 CFR 200.320. Current micro-purchase and simplified acquisition thresholds can be found in the FAR (48 CFR Subpart 2.1, “Definitions”)  c. Verify that procurements provide full and open competition (2 CFR 200.319 and [48 CFR 52.244-5](48CFR52.244-5.pdf)).  d. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (2 CFR 200.319 and 200.320(c) and [48 CFR 52.244-5](48CFR52.244-5.pdf)).  e. Ascertain if cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold, including contract modifications, and that this analysis supported the procurement action (2 CFR 200.324 and [48 CFR 15.404-3](48%20CFR%2015.404-3.pdf)).  **Note**: A cost or price analysis is required for each procurement action, including each contract modification, when the total amount of the contract and related modifications is greater than the simplified acquisition threshold.)  f. Verify consent to subcontract was obtained when required by the terms and conditions of a cost reimbursement contract under the FAR ([48 CFR 52.244-2](48%20CFR%2052.244-2.pdf)).  **Note**: If the non-Federal entity has an approved purchasing system, consent to subcontract may not be required unless specifically identified by contract terms or conditions. The auditor should verify that the approval of the purchasing system is effective for the audit period being reviewed.  *(Procedures 6 and 7 apply to all non-Federal entities)*  6. Review the non-Federal entity’s procedures for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR 200.213 and 200.318(h); [2 CFR 180.300](2%20CFR%20Part%20180.pdf); [48 CFR 52.209-6](48%20CFR%2052.209-6.pdf)).  7. Select a sample of procurements and subawards and test whether the non-Federal entity followed its procedures before entering into a covered transaction. |

### Audit Implications Summary

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

## Program Testing Conclusion

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

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

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

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

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

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

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

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

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

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