**Federal Award Compliance and Control Record**

**Audit Guidance and Testing**

|  |  |
| --- | --- |
| **Name of Client:** |  |
| **Year Ended:** | 2024 |

|  |  |
| --- | --- |
| **Federal Award Name:** | Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii |
| **AL#:** | 14.228 |

# Important Information

**In addition to completing the control and suggested audit procedures, yellow-highlighted text indicates items that must be addressed or updated by auditors and should be deleted after the required information is added.**

*Blue italicized text indicates guidance from CFAE.*

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 the program had COVID funding expenditures, please refer to the terms and conditions of the grant to determine if any additional requirements were imposed. Also see guidance in [Appendix VII](OMB_Appendix_VII.pdf) of the Compliance Supplement.

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)).

**Navigation Pane**

Click on the “View” tab on the top ribbon and check the box that says “Navigation Pane” to bring up the headings on the left side of the screen. Click on the various sections within the navigation pane to go directly to that section.

**Table of Contents**

On the table of contents page, users can also click on listed sections to go directly to that section. As information is added into the FACCR, page numbering will change and the Table of Contents may need to be updated to reflect revised numbering. To update the Table of Contents, click on the word “Contents” directly above the line starting with Important Information, which brings up the icon “Update Table.” Clicking OK in the box that appears will update the page numbers on the Table of Contents to reflect any changes in the document.

**Guidance Links**

Links to guidance referenced throughout this document are included below:

* [Part 6](OMB_Part_6.pdf) (Internal Control) of the OMB Compliance Supplement
* [2013 COSO](https://www.coso.org/_files/ugd/3059fc_61ea5985b03c4293960642fdce408eaa.pdf)
* [GAO’s 2014 Green Book](https://www.gao.gov/assets/gao-14-704g.pdf)
* [2 CFR Part 200](2_CFR_Part_200.pdf) – Once opened, click on the appropriate section(s)

# 2024 Uniform Guidance Updates

*This FACCR was written for programs/clusters administered under the Uniform Guidance* ***prior to*** *the 2024 revisions from OMB. Auditors must read the guidance and complete the table below to determine whether revised Uniform Guidance requirements need to be considered when testing the major program/cluster.*

OMB recently updated its Guidance for Federal Financial Assistance contained in 2 CFR, including 2 CFR part 200. See 89 FR 30046 (Apr. 22, 2024). Although the government-wide effective date for the 2024 revisions is not until October 1, 2024, Federal agencies may elect to implement the revisions as early as June 21, 2024 to new awards and through amendments to existing awards. Because Federal agencies are not required to implement the revisions prior to October 1, 2024, there is likely to be some variation on when Federal agencies begin to make the 2024 revisions apply to Federal awards. For example, a non-Federal entity with a fiscal year beginning on January 1, 2024 may receive an award on June 21, 2024 made subject to the 2024 revisions by the Federal agency. Consequently, the auditor should perform reasonable procedures to ensure that compliance requirements identified as subject to the audit are current and determine whether there are any additional or modified provisions of Federal awards based on the 2024 revisions. Auditors must not, however, apply compliance requirements from the 2024 revisions in circumstances in which the Federal agency has not yet applied the 2024 revisions to the Federal award subject to audit.

*(Source: 2024 OMB Compliance Supplement, Part 1)*

*Auditors must read the grant agreement(s) and inquire with management to determine whether the program, or a portion thereof, is subject to the revised Uniform Guidance Requirements.*

|  |  |
| --- | --- |
| ***Respond to the Following Questions Regarding the Major Program/Cluster Tested in this FACCR:*** | |
| *(1) Is the program/cluster (or a portion thereof) subject to the revised Uniform Guidance?* | *[****Yes/No****]* |
| *(2) If the response to question 1 is yes, document the dollar amount of program/cluster expenditures subject to the revised Uniform Guidance.* | ***$xxx*** |
| *(3) Document total program/cluster expenditures per the SEFA.* | ***$xxx*** |
| *(4) Percentage of total program/cluster expenditures subject to the revised Uniform Guidance.* | ***xx%*** |

*Sources Reviewed:* **Auditors must document sources reviewed to make the determinations above.**

*If the program is subject to the revised Uniform Guidance (i.e. the response to question 1 above is “Yes”):*

* *AOS auditors must contact CFAE via the FACCR Specialty in Spiceworks.*
* *IPAs must ensure compliance requirements subject to audit are appropriately tailored to incorporate revised Uniform Guidance requirements.*

# Agency Adoption of the UG and Example Citations

[*Appendix II*](OMB_Appendix_II.pdf) *to the OMB Compliance Supplement provides the codified section reference of the agency adoption of the Uniform Guidance (UG) (2 CFR Part 200) and nonprocurement suspension and debarment requirements in 2 CFR Part 180, including the 2020 revisions.*

*While some Federal agencies gave regulatory effect to the Uniform Guidance as a whole, others made changes to the UG language within the agency codified sections by either adding specific requirements/exceptions or editing/modifying existing language. OMB does not maintain a complete listing of agency exceptions to the UG, but the most recent compilation of agency additions and exceptions (updated through December 2014) is provided on the* [*CFO website*](https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf)*. AOS auditors should review the UG Exception Evaluation by Federal Agency spreadsheet* [*on the Intranet*](https://ohauditor.sharepoint.com/:f:/r/sites/Intranet/Shared%20Documents/Audit_Resources/Federal/Other%20Federal%20Resources?csf=1&web=1&e=RtVw5R) *(Documents > Audit Resources > Federal > Other Federal Resources).*

*Auditors must review the Federal agency adoption of the Uniform Guidance (2 CFR Part 200) and nonprocurement suspension and debarment requirements (2 CFR Part 180) prior to issuing noncompliance citations to verify the Federal agency requirements.*

*Auditors should also review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*

# Table of Contents

Table of Contents

[Important Information 1](#_Toc185238375)

[2024 Uniform Guidance Updates 2](#_Toc185238376)

[Agency Adoption of the UG and Example Citations 3](#_Toc185238377)

[Table of Contents 4](#_Toc185238378)

[Compliance Requirement Matrix 7](#_Toc185238379)

[Part I – OMB Compliance Supplement Information 12](#_Toc185238380)

* [I. Program Objectives 12](#_Toc185238381)
* [II. Program Procedures 12](#_Toc185238382)
* [III. Source of Governing Requirements 16](#_Toc185238383)
* [IV. Other Information 17](#_Toc185238384)

[Part II – Pass through Agency and Grant Specific Information 19](#_Toc185238385)

* [Program Overview 19](#_Toc185238386)
* [Testing Considerations 20](#_Toc185238387)
* [Reporting 20](#_Toc185238388)

[Part III – Applicable Compliance Requirements 21](#_Toc185238389)

[A. ACTIVITIES ALLOWED OR UNALLOWED 21](#_Toc185238390)

* [OMB Compliance Requirements 21](#_Toc185238391)
* [Additional Program Specific Information 29](#_Toc185238392)
* [Audit Objectives and Control Testing 30](#_Toc185238393)
* [Suggested Substantive Audit Procedures – Compliance 31](#_Toc185238394)
* [Audit Implications Summary 31](#_Toc185238395)

[B. ALLOWABLE COSTS/COST PRINCIPLES 33](#_Toc185238396)

* [Applicability of Cost Principles 34](#_Toc185238397)
* [Additional Program Specific Information 36](#_Toc185238398)
* [Cost Principles for States, Local Governments and Indian Tribes 38](#_Toc185238399)
* [OMB Compliance Requirements 38](#_Toc185238400)
* [Audit Implications Summary 46](#_Toc185238401)

[F. EQUIPMENT AND REAL PROPERTY MANAGEMENT 47](#_Toc185238402)

* [OMB Compliance Requirements 47](#_Toc185238403)
* [Additional Program Specific Information 50](#_Toc185238404)
* [Audit Objectives and Control Testing 51](#_Toc185238405)
* [Suggested Substantive Audit Procedures – Compliance 52](#_Toc185238406)
* [Audit Implications Summary 53](#_Toc185238407)

[H. PERIOD OF PERFORMANCE 54](#_Toc185238408)

* [OMB Compliance Requirements 54](#_Toc185238409)
* [Additional Program Specific Information 56](#_Toc185238410)
* [Audit Objectives and Control Testing 56](#_Toc185238411)
* [Suggested Substantive Audit Procedures – Compliance 57](#_Toc185238412)
* [Audit Implications Summary 58](#_Toc185238413)

[J. PROGRAM INCOME 59](#_Toc185238414)

* [OMB Compliance Requirements 59](#_Toc185238415)
* [Additional Program Specific Information 62](#_Toc185238416)
* [Audit Objectives and Control Testing 64](#_Toc185238417)
* [Suggested Substantive Audit Procedures – Compliance 65](#_Toc185238418)
* [Audit Implications Summary 65](#_Toc185238419)

[L. REPORTING 67](#_Toc185238420)

* [OMB Compliance Requirements 67](#_Toc185238421)
* [Additional Program Specific Information 71](#_Toc185238422)
* [Audit Objectives and Control Testing 72](#_Toc185238423)
* [Suggested Substantive Audit Procedures – Compliance 73](#_Toc185238424)
* [Audit Implications Summary 75](#_Toc185238425)

[N1. SPECIAL TESTS AND PROVISIONS – Wage Rate Requirements 76](#_Toc185238426)

* [OMB Compliance Requirements 76](#_Toc185238427)
* [Additional Program Specific Information 77](#_Toc185238428)
* [Audit Objectives and Control Testing 77](#_Toc185238429)
* [Suggested Substantive Audit Procedures – Compliance 78](#_Toc185238430)
* [Audit Implications Summary 78](#_Toc185238431)

[N2. SPECIAL TESTS AND PROVISIONS – Environmental Oversight 79](#_Toc185238432)

* [OMB Compliance Requirements 79](#_Toc185238433)
* [Additional Program Specific Information 80](#_Toc185238434)
* [Audit Objectives and Control Testing 80](#_Toc185238435)
* [Suggested Substantive Audit Procedures – Compliance 81](#_Toc185238436)
* [Audit Implications Summary 81](#_Toc185238437)

[N3. SPECIAL TESTS AND PROVISIONS – Environmental Reviews 83](#_Toc185238438)

* [OMB Compliance Requirements 83](#_Toc185238439)
* [Additional Program Specific Information 84](#_Toc185238440)
* [Audit Objectives and Control Testing 85](#_Toc185238441)
* [Suggested Substantive Audit Procedures – Compliance 86](#_Toc185238442)
* [Audit Implications Summary 86](#_Toc185238443)

[N4. SPECIAL TESTS AND PROVISIONS – Citizen Participation 88](#_Toc185238444)

* [OMB Compliance Requirements 88](#_Toc185238445)
* [Additional Program Specific Information 89](#_Toc185238446)
* [Audit Objectives and Control Testing 93](#_Toc185238447)
* [Suggested Substantive Audit Procedures – Compliance 93](#_Toc185238448)
* [Audit Implications Summary 94](#_Toc185238449)

[N5. SPECIAL TESTS AND PROVISIONS – Rehabilitation Using NSP Funds 95](#_Toc185238450)

* [OMB Compliance Requirements 95](#_Toc185238451)
* [Additional Program Specific Information 95](#_Toc185238452)
* [Audit Objectives and Control Testing 95](#_Toc185238453)
* [Suggested Substantive Audit Procedures – Compliance 96](#_Toc185238454)
* [Audit Implications Summary 97](#_Toc185238455)

[N6. SPECIAL TESTS AND PROVISIONS – Section 3 98](#_Toc185238456)

* [OMB Compliance Requirements 98](#_Toc185238457)
* [Additional Program Specific Information 98](#_Toc185238458)
* [Audit Objectives and Control Testing 99](#_Toc185238459)
* [Suggested Substantive Audit Procedures – Compliance 99](#_Toc185238460)
* [Audit Implications Summary 100](#_Toc185238461)

[Program Testing Conclusion 101](#_Toc185238462)

# Compliance Requirement Matrix

*Footnotes 1-7 below the matrix provide further explanation; review note 6 which discusses tailoring the matrix assessments.*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **(1)** | **(2)** | **(6)** | **(6)** | **(3)** | **(4)** | **(5)** | **(5)** | **(7)** |
| **Compliance Requirement** | | | **Applicable per Compliance Supplement**  *(Yes/No)* | **Direct & Material to Program / Entity**  *(Yes/No)* | **Monetary**  **or Nonmonetary**  *(Set by CFAE)*  *(M/N)* | **Population Subject to Requirement (if Monetary)**  *(in $)* | **Inherent Risk**  **(from IRAF)**  *(High/Low)* | **Final Control Risk**  *(High/Low)* | **Detection**  **Risk of Noncompl.**  *(High/Low)* | **Overall Audit Risk of Noncompl.**  *(High/Low)* | **Federal Materiality by Compliance Requirement**  *(usually 5%)* |
| **A** |  | **Activities Allowed or Unallowed** | Yes |  | M |  |  |  |  |  | 5% |
| **B** |  | **Allowable Costs/Cost Principles** | Yes |  | M |  |  |  |  |  | 5% |
| **C** |  | **Cash Management** | No |  |  |  |  |  |  |  |  |
| **D** |  | ***Reserved – Not Used*** |  |  |  |  |  |  |  |  |  |
| **E** |  | **Eligibility** | No |  |  |  |  |  |  |  |  |
| **F** |  | **Equipment & Real Property Mgmt** | Yes |  | M |  |  |  |  |  | 5% |
| **G** |  | **Matching, Level of Effort, Earmark** | No |  |  |  |  |  |  |  |  |
| **H** |  | **Period of Performance** | Yes |  | M |  |  |  |  |  | 5% |
| **I** |  | **Procurement & Sus. & Debarment** | No |  |  |  |  |  |  |  |  |
| **J** |  | **Program Income** | Yes |  | M |  |  |  |  |  | 5% |
| **K** |  | ***Reserved – Not Used*** |  |  |  |  |  |  |  |  |  |
| **L** |  | **Reporting** | Yes |  | N |  |  |  |  |  | 5% |
| **M** |  | **Subrecipient Monitoring** | No |  |  |  |  |  |  |  |  |
| **N1** |  | **Special Tests & Provisions –**  **Wage Rate Requirements** | Yes |  | M/N |  |  |  |  |  | 5% |
| **N2** |  | **Special Tests & Provisions – Environmental Oversight** | Yes |  | M/N |  |  |  |  |  | 5% |
| **N3** |  | **Special Tests & Provisions – Environmental Reviews** | Yes |  | M/N |  |  |  |  |  | 5% |
| **N4** |  | **Special Tests & Provisions –**  **Citizen Participation** | Yes |  | M/N |  |  |  |  |  | 5% |
| **N5** |  | **Special Tests & Provisions – Rehabilitation Using NSP Funds** | Yes |  | M/N |  |  |  |  |  | 5% |
| **N6** |  | **Special Tests & Provisions – Section 3** | Yes |  | M/N |  |  |  |  |  | 5% |

**(1)** *From Part 2, Matrix of Compliance Requirements, for the applicable program in the* [*OMB Compliance Supplement*](https://www.whitehouse.gov/omb/office-federal-financial-management/)*. For programs not included in Part 2, all compliance requirements should be marked as applicable.*

**(2)** *If the Compliance Supplement notes a compliance requirement as being applicable to the program in the first column, 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. 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 in the working papers or this FACCR. When making that determination all parts of that compliance requirement must be considered. For example, Equipment and Real Property Management contains procedures regarding Acquisitions, Dispositions (Disposals), and Inventory Management. The documentation on why the compliance requirement is not applicable to the program/entity must address all parts of that compliance requirement.*

***(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. For AOS auditors, the auditor documents the inherent risk assessment for each direct and material compliance requirement on the Inherent Risk Assessment Form (IRAF). The assessments in this column should directly tie to the final inherent risk assessment on the IRAF.*

**(4)** *See guidance on the following page for considerations relating to assessing control risk of noncompliance for each direct and material type of compliance requirement.* ***Planned control risk must be assessed at low per 2 CFR § 200.514; therefore, only final control risk is shown in the matrix.*** *Additionally, auditors must document final control risk in each compliance requirement section’s Audit Implications Summary in this FACCR. See AICPA Single Audit Guide, Chapter 9, Consideration of Internal Control over Compliance for Major Programs.*

**(5)** *Audit risk of noncompliance is defined in 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)*** *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. CFAE included the monetary vs. nonmonetary determinations for each compliance requirement in this program. If AOS auditors believe the determination of monetary vs. nonmonetary should be updated for a particular section, other than sections E and N, they must consult with CFAE via the FACCR specialty in Spiceworks. The Eligibility and Special Tests & Provisions determinations reflect M/N as the determination of whether the compliance requirement is monetary or non-monetary is contingent upon the specific requirements of the program being tested as well as requirements contained within the grant agreement. For sections E and N, auditors should tailor the assessment as appropriate based on the facts and circumstances of their entity’s operations, update the Compliance Requirement Matrix for the appropriate designation (N or M), and document the research and reasoning behind the determination.*

***(7)*** *AU-C 935.13 & .A7 require auditors to establish and document two materiality levels: (1) a materiality level for the program as a whole, and (2) a second materiality level for the each of the applicable 12 compliance requirement listed in Appendix XI to Part 200. This column documents quantitative materiality at the compliance requirement level for each major program.*

*Note: If the compliance requirement is (1) of a monetary nature, and (2) the requirement applies to the* ***total*** *population of program expenditures, then the compliance materiality amount for the program also equals materiality for the requirement as shown in the last column of the matrix. 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. The program level materiality, typically 5%, is documented in the Record of Single Audit Risk (RSAR).*

**Performing Tests to Evaluate the Effectiveness of Controls**

*Control Risk Assessment:*

*Auditors must:*

* *Document the five internal control components (control environment, risk assessment, control activities, information and communication, and monitoring) for each direct and material compliance requirement and*
* *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 compliance requirement is likely to be ineffective in preventing or detecting noncompliance, 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.*

*AICPA Single Audit Guide’s paragraph 9.08 states that 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 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.*

*AU-C 330.10 and 330.A28 address testing of the operating effectiveness of controls ordinarily includes procedures such as*

1. *inquiries of appropriate entity personnel, including grant and contract managers;*
2. *the inspection of documents, reports, or electronic files indicating performance of the control;*
3. *the observation of the application of the specific controls; and*
4. *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.*

*Before a dual-purpose test is performed, AOS auditors must read AOSAM 30500 and 35900 for guidance.*

[Part 6](OMB_Part_6.pdf) of the 2024 OMB Compliance Supplement provides detailed guidance on assessing internal controls over the compliance requirements.

*(Source: 2024 OMB Compliance Supplement)*

**Improper Payments**

Under OMB guidance, Public Law (Pub. L.) No. 116-117, Payments Integrity Information Act of 2019, and Executive Order 13520 on reducing improper payments, federal agencies are required to take actions to prevent improper payments, review federal awards for such payments, and, as applicable, recover 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. For purposes of producing an estimate, when the agency cannot determine, due to lacking or insufficient documentation, whether a payment is proper or not, the payment must be treated as an improper payment.

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: 2024 OMB Compliance Supplement Part 3)*

# Part I – OMB Compliance Supplement Information

### I. Program Objectives

The Community Development Block Grant (CDBG) program overall objective is to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. CDBG CARES Act (CDBG-CV) funds made available under an emergency appropriation on March 27, 2020, are to be used similarly, but must also prevent, prepare for, and respond to coronavirus.

Additional funds were made available under the Further Consolidated Appropriations Act, 2020 for activities authorized under Section 8071 of the SUPPORT for Patients and Communities Act (Recovery Housing Program) to provide stable, temporary housing to individuals in recovery from a substance use disorder. This supplement also includes CDBG Disaster Recovery (CDBG-DR) funds, CDBG Mitigation (CDBG-MIT) funds, and Neighborhood Stabilization Program (NSP1, NSP3) funds.

This compliance supplement is for State CDBG grantees and their subgrantees. There is a separate compliance supplement for Entitlement CDBG.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### II. Program Procedures

**A. Overview**

The primary objective of CDBG is the development of viable urban communities. These viable communities are achieved by providing the following, principally for persons of low and moderate income: decent housing; a suitable living environment; and expanded economic opportunities. Each activity, except for program administration and planning activities, must meet one of three national objectives. The three national objectives are: benefit to low- and moderate-income (LMI) persons; aid in the prevention or elimination of slums or blight; and meet a need having a particular urgency (referred to as urgent need).

To achieve these goals, the CDBG statute and regulations set forth eligible activities and the above national objectives. As recipients of CDBG funds, grantees are charged with ensuring that these requirements are met. States are responsible for:

1. Designing the CDBG Program within statutory and regulatory parameters;

2. Setting priorities and deciding what activities to fund;

3. Distributing funding according to the method of distribution;

4. Establishing financial management, recordkeeping, reporting, monitoring, audit and closeout systems for their programs;

5. Ensuring compliance by state grant recipients; and

6. Developing the Consolidated Plan.

Under the annual State CDBG Program, states award grants to non-entitlement units of general local government (UGLGs) that develop and preserve decent affordable housing, to provide services to the most vulnerable in our communities, and to create and retain jobs. Annually, each State develops funding priorities and criteria for selecting projects. A state distributes most of its allocation to non-entitlement units of general local government through a method of distribution. Non-entitlement UGLGs are those which do not receive CDBG funds directly from HUD as entitlement grantees. The state is primarily a pass- through entity, as defined by 2 CFR Part 200, except for certain funds a state may use directly, such as administration and technical assistance.

Forty-nine (49) states and Puerto Rico participate in the State CDBG Program. The State of Hawaii elected not to participate in the State CDBG Program and should be reviewed under Assistance Listing 14.218. Non-entitlement UGLGs are responsible for prioritizing the types of activities they apply for, carrying out eligible activities, complying with federal and state requirements, and handling local citizen participation.

The grantee prepares a Consolidated Plan in accordance with 24 CFR Part 91 and which describes needs, resources, priorities, and proposed activities it will undertake for HUD’s Community Planning and Development (CPD) formula programs, including CDBG. A final Consolidated Plan is one which has been accepted by HUD. Grantees report on accomplishments and progress toward Consolidated Plan goals in the Consolidated Annual Performance and Evaluation Report (CAPER).

The method of distribution (MOD) is part of the Consolidated Plan and describes the kinds of activities the state wants to fund and a process for soliciting funding applications from UGLGs. The MOD must describe how all CDBG resources will be allocated among funding categories.

**B. Financial and Performance Requirements**

As identified below, the CDBG program allows certain types of funding and has expenditure and financial reporting requirements that each state grantee must meet. However, these requirements may be modified for subprograms. These differences will be reflected in the subprogram sections below. The financial and performance reporting requirements for CDBG are as follows:

1. *Overall Planning, Management and Administration Cap*: Planning and administration costs are capped at twenty percent of the sum of grant plus program income that is received during the program year.

2. *State Administration Limit*: A State may use $100,000 plus 3 percent of funds received. State expenditures over $100,000 must be matched.

3. *Public Services Cap*: Public services costs are capped at fifteen percent of the annual grant allocation plus program income received during the prior program year. Public Services include a wide range of public service activities that may include but are not limited to:

a. job training and employment services;

b. crime prevention and public safety;

c. childcare;

d. health care and substance abuse services;

e. fair housing counseling;

f. education programs;

g. energy conservation;

h. services for senior citizens;

i. services for homeless persons;

j. welfare services (excluding income payments);

k. down payment assistance; and

l. recreational services.

4. *Technical Assistance*: Technical assistance costs are capped at 3 percent of the annual grant allocation plus program income received during the program year.

5. *Overall Low- to Moderate-Income Benefit*: Grantees are required to expend a substantial portion of their funds to benefit low- to moderate-income persons. The low- to moderate-income objective requires recipients to expend seventy percent of their CDBG funds to benefit low- to moderate-income persons on a one-, two-, or three-year basis, as determined by the grantee. Low-income means family or household with an annual income less than fifty percent of the area median income, as established by HUD; median income means family or household with an annual income less than eighty percent of the area median income, as established by HUD.

6. *Section 108 Loan Guarantee Program*: Non-entitlement UGLGs may directly borrow Section 108 guaranteed loan funds, or states may apply for funding that it will distribute to non-entitlement UGLGs to carry out activities. The proposed activities must be eligible under the Section 108 regulations at 24 CFR 570.703.

**C. Subprograms/Program Elements**

*1. CDBG-CV*

Unlike the annual formula program, a state may use a portion of its CDBG-CV funds to act directly to carry out activities through employees, contractors, and subrecipients in all geographic areas within its jurisdiction, including entitlement areas and tribal populations.

As identified below, the State CDBG-CV program limits certain types of funding and has expenditure and financial reporting requirements that each state grantee must meet. However, these requirements may be modified for subprograms. Alternative requirements for CDBG-CV are noted below.

a. Overall Planning, Management and Administration Cap: Planning and administration costs are capped at twenty percent of the sum of grant.

b. State Administration Limit: A State may use 5 percent of funds received. There is no matching requirement.

c. Public Services Cap: There is no cap for public services.

d. Technical Assistance: Technical assistance costs are capped at 2 percent of the grant allocation.

e. Overall Low- to Moderate-Income Benefit: Grantees must expend seventy percent of its CDBG-CV funds to benefit low- to moderate-income persons.

*2. CDBG-DR and CDBG-MIT*

The primary objective for CDBG-DR is to provide disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in the most impacted and distressed areas resulting from a major disaster, declared pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974.

Congress may appropriate funding for CDBG-DR grants to address disaster recovery needs that are not met by other sources of Federal disaster assistance. When available, HUD provides CDBG-DR grants to states, territories, and local governments particularly to be used for specific disaster recovery purposes.

Generally, all CDBG-DR activities must:

a. Be CDBG-eligible (or eligible under a waiver or alternative requirement);

b. Meet a national objective; and

c. Meet an unmet recovery need that addresses a direct or indirect impact from an eligible disaster.

For CDBG-MIT, Congress appropriated $16,121,297,000 in CDBG funds specifically for mitigation activities for qualifying disasters in 2015, 2016, 2017, and 2018 under Public Law 115–123 and Public Law 116–20. CDBG-MIT is a unique and significant opportunity for eligible grantees to use this assistance in areas impacted by specific disasters to carry out strategic and high-impact activities to mitigate disaster risks and reduce future losses.

For CDBG-MIT, mitigation activities are defined as activities that increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship by lessening the impact of future disasters. The mitigation objectives and efforts align with other federal programs that address hazard mitigation to create a more cohesive effort at the federal, state, and local level.

Similar to CDBG-DR funds, the use of CDBG-MIT funds must also occur within the CDBG framework. All CDBG-MIT activities must: (1) meet the definition of mitigation activities above; (2) address current and future risks; (3) be CDBG-eligible (or eligible under a waiver or alternative requirement); and (4) meet a national objective.

CDBG-DR and CDBG-MIT grants have a statutory focus on benefiting vulnerable lower-income people and communities and targeting the most impacted and distressed areas.

*3. Neighborhood Stabilization Program (NSP1 and NSP3)*

The objectives of the Neighborhood Stabilization Program (NSP) are to: (1) stabilize property values. 2. Arrest neighborhood decline. 3. Assist in preventing neighborhood blight. 4. Stabilize communities across America hardest hit by residential foreclosures and abandonment. These objectives have been achieved through the purchase and redevelopment of foreclosed and abandoned homes and residential properties that allows those properties to turn into useful, safe and sanitary housing. The grants are to be considered CDBG funds.

*4. Recovery Housing Program (RHP)*

The objective of the RHP program is to support individuals in recovery onto a path to self-sufficiency. By providing stable housing to support recovery, RHP supports efforts for independent living. More specifically, RHP provides the funds to develop housing or maintain housing for individuals. States may carry out activities directly or through subrecipients or contractors with their RHP funds and in all geographic areas within its jurisdiction, including entitlement areas and tribal populations.

This pilot program authorizes assistance to grantees (states and the District of Columbia) to provide stable, temporary housing to individuals in recovery from a substance use disorder through fiscal year 2023.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### III. Source of Governing Requirements

The CDBG program is authorized by the Housing and Community Development Act of 1974, Title I, Section 101-122, Pub. L. No. 93-383, Statute 88,633, 42 US Code 5301-5322 (“HCDA”). Program regulations are found in 24 CFR part 570, primarily in Subpart I. Program specific requirements for administrative costs, pre-agreement costs, fiscal controls and accounting procedures, program income and real and personal property (equipment) and cost principles can be found at 24 CFR 570.489.

In addition to federal statutory and regulatory requirements, a state has the authority to issue rules consistent with federal statutes and regulations. An auditor should review the State CDBG program requirements rules before beginning the audit (24 CFR 570.480 and 570.481). The CDBG loan guarantee component is authorized by Section 108 of the Housing and Community Development Act of 1974. The specific regulations governing the Section 108 Program may be found at 24 CFR 570, Subpart M, Loan Guarantees.

CDBG-CV is authorized in the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. No. 116-136, March 27, 2020) title 12 of Division B. HUD published a “Notice of Program Rules, Waivers, and Alternative Requirements Under the CARES Act for CDBG-CV Grants, FY 2019 and 2020 CDBG Grants, and for Other Formula Programs” ([85 FR 51457](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf), August 20, 2020) (“CDBG-CV Notice”) that establishes the program rules, alternative requirements, and the regulatory waivers for the use of CDBG-CV funds. HUD published a “Notice of Change to an Expenditure Deadline Under the CARES Act for Community Development Block Grant Program Coronavirus Response Grants” ([88 FR 23683](https://www.hud.gov/sites/dfiles/CPD/documents/FR-Document-2023-08158.pdf), April 18, 2023) (“CDBG-CV Notice 2”) to remove one of the regulatory waivers and alternative requirements applicable to the CDBG-CV funds.

CDBG-DR and CDBG-MIT are not codified programs. Congress appropriates disaster recovery funds on a periodic basis following major disasters. Funding is authorized under Title I of the HCDA. The following public laws were the appropriation acts that provided funding for each disaster: Pub. L. nos. 117-328; 117-180; 117-43; 116-20; 115-254; 115-123; 115-72; 115-56 (Division B); 115-31 (Sec. 421); 114-254; 114-223; 114-113; 113-2; 112-55; 111-212; 110-329; 110-252; 110-116; 109-234; 109-148; 108-324; 107-206; 107-117; 107-73; and 107-38.

HUD is authorized to administer CDBG-MIT under Title I of the HCDA. The public laws that appropriated funds for this purpose include Pub. L. nos. 115-123 (Division B) and 116-20 (Division B).

The rules and regulations governing CDBG funds apply to CDBG-DR and CDBG-MIT funds unless otherwise waived or altered in a Federal Register notice. The auditor must consult the relevant public law and Federal Register notices for the CDBG-DR or CDBG-MIT award. The auditor can find links to the appropriate public laws and Federal Register notices at <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations>.

NSP1 is authorized by the Housing and Economic Recovery Act of 2008 (HERA) (Pub. L. No. 110-289, July 30, 2008). The Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No. 111-203, July 21, 2010) authorized additional funding for NSP that is referred to as NSP3.

RHP is authorized in Section 8071 of the SUPPORT for Patients and Communities Act (Pub. L. No. 115-271, October 24, 2018). HUD established the requirements for the RHP program, based on CDBG program requirements, in the “Notice of FY2020 Allocations, Waivers, and Alternative Requirements for the Housing Program” ([85 FR 75361](https://www.govinfo.gov/content/pkg/FR-2020-11-25/pdf/2020-26017.pdf), November 25, 2020) (“RHP Program Notice”). Those requirements include waivers and alternative requirements to CDBG regulations and the HCDA for the use of RHP funds appropriated under the FY 20 Appropriations Act (Pub. L. No. 116-94, December 20, 2019). HUD extended those requirements through the “Notice of Waivers and Alternative Requirements for the Pilot Recovery Housing Program” ([86 FR 38496](https://www.govinfo.gov/content/pkg/FR-2021-07-21/pdf/2021-15515.pdf), July 21, 2021) (“RHP Notice 2”) to RHP funds appropriated by the FY 21 Appropriations Act (Pub. L. No. 116-260, December 27, 2020) and any future RHP appropriations.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### IV. Other Information

*1. Hawaii*

The state of Hawaii chose not to administer the non-entitlement funds. Therefore, the non-entitlement counties in Hawaii, which otherwise would have been eligible for funding under the State CDBG program, are generally subject to the CDBG Entitlement regulations. For State CDBG, CDBG-DR and CDBG-MIT, Hawaii is reviewed under Assistance Listing 14.218 Community Development Block Grants/Entitlement Grants.

This compliance supplement is for the State program. For some subprograms, there may be another compliance supplement that should be used.

*2. 14.256 Neighborhood Stabilization Program (Recovery Act Funded)*

NSP funding provided under the American Recovery Reinvestment Act (Dodd-Frank Act) authorized additional funding for NSP that is referred to as NSP2 and NSP-TA, which are covered by the Compliance Supplement Assistance Listing 14.256 and audited separately.

*3. 14.269 Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)*

This supplement only covers awards made under Public Law Number 113-2 and are audited separately. Other CDBG-DR awards funded under other Public Laws will use this supplement. More information can be found at: <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations>

*4. CDBG-DR and CDBG-MIT grants fall under one of four assistance listings, depending on the appropriation and type of grantee.*

|  |  |
| --- | --- |
|  | **Assistance Listing** |
| Hurricane Sandy grants to states and cities under  P.L. 113-2 | 14.269 |
| National Disaster Resilience grants to states and cities under P.L. 113-2 | 14.272 |
| Other CDBG-DR and CDBG-MIT grants to states and insular areas including tribes | 14.228 |
| Other CDBG-DR and CDBG-MIT grants to entitlement communities (cities, counties and local governments) | 14.225 |

**Availability of Other Program Information**

HUD publishes “CPD Notices” which provide interpretive guidance on program requirements.

These Notices may be found at HUDClips, <https://www.hud.gov/program_offices/administration/hudclips/notices/cpd>.

The CPD Notice for financial and performance reporting is CPD Notice 2021-11 Reporting Requirements for the State Performance and Evaluation Report (State PER). This Notice provides instructions on the financial statements used by State CDBG grantees in lieu of SF-425.

State CDBG Website: <https://www.hudexchange.info/programs/cdbg-state/>

CDBG-CV website: <https://www.hud.gov/program_offices/comm_planning/cdbg_programs_covid-19>

CDBG-CV Notice 1: <https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf>

CDBG-CV Notice 2 <https://www.hud.gov/sites/dfiles/CPD/documents/FR-Document-2023-08158.pdf>

CDBG-DR Website: <https://www.hud.gov/program_offices/comm_planning/cdbg-dr>

CDBG-MIT Website: <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/cdbg-mit>

Information on CDBG-DR and CDBG-MIT waivers and alternative requirements issued by HUD can be found at <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations>.

NSP website: <https://www.hud.gov/program_offices/comm_planning/nsp>

NSP Notice (73 FR 58330, October 6, 2008): <https://www.govinfo.gov/content/pkg/FR-2008-10-06/pdf/E8-23476.pdf>

NSP1 Bridge Notice (74 FR 29223, June 19, 2009): <https://www.govinfo.gov/content/pkg/FR-2009-06-19/pdf/E9-14360.pdf>

NSP Definition and Modification Notice (75 FR 18228, April 9, 2010): <https://www.govinfo.gov/content/pkg/FR-2010-04-09/pdf/2010-8131.pdf>

NSP3 Notice (75 FR 64322, October 19, 2010): <https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf>

RHP website: <https://www.hud.gov/program_offices/comm_planning/rhp>

RHP Program Notice: <https://www.govinfo.gov/content/pkg/FR-2020-11-25/pdf/2020-26017.pdf>

RHP Notice 2: <https://www.govinfo.gov/content/pkg/FR-2021-07-21/pdf/2021-15515.pdf>

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

# Part II – Pass through Agency and Grant Specific Information

OCD Policy Notice 15-01 states that the Community Services Division (CSD) within the Ohio Department of Development (Development) does not permit subgranting of funds or subrecipient agreements with other local governments or agencies. [OCD Policy Notice 20-04](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000001IcYf/XUsmGxkIq9oaPIZw5Zvi3FW8pjwzlBSXK907p4yUuW0) provides an exception to Policy Notice 15-01 for CDBG-funded public services activity.

*Please contact CFAE if you have a client that appears to have subgranted the funds down to another local government or agency.*

### Program Overview

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

CSD has established a variety of “programs” (or initiatives) under which it awards CDBG funds. Those programs include:

• Community Housing Impact and Preservation Program

• Community Development Program

• Residential Public Infrastructure Program\*

• Economic Development Program \*

• Target of Opportunity Grant Program\*\*

• New Horizons Program

\* The majority of CDBG (AL #14.228) funds have traditionally been distributed among these programs/initiatives.

\*\* Includes grants from CARES Act Funding.

Due to the flexibility provided for in block grants and the number of various programs administered by CSD under AL #14.228, this document will provide general requirements for the applicable types of compliance requirements. Accordingly, auditors must review the award documents to identify (and document in the work papers) the requirements specific to the particular award(s) being audited.

*(Source: Talia Givens-Gore, Deputy Chief, Office of Community Enhancements, Ohio Department of Development, on 11/19/2024)*

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

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

### Testing Considerations

Grantees receiving federal funds must comply with the following: 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”

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

### Reporting

Beginning with grants awarded in 2014, some entities are now forming partnerships for the Community Housing Impact and Preservation (CHIP) / CDBG grants (with another City, County, etc.). See the [CHIP Application: Partnership Agreement Section](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000001FsQg/wZrxwY1_NLYVyFSpXrm0BwCTfRCwuo254fXclTBcG6Y).

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

*(Source:* [*CHIP Application: Partnership Agreement Section*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000001FsQg/wZrxwY1_NLYVyFSpXrm0BwCTfRCwuo254fXclTBcG6Y)*)*

*Example SEFA and Footnote shells, the “2024 SEFA Completeness Guide” and additional resources are available for AOS Staff on the Intranet and for IPAs on the* [*IPA Resource Internet Page*](http://www.ohioauditor.gov/references/practiceaids.html)*.*

# Part III – Applicable Compliance Requirements

## A. ACTIVITIES ALLOWED OR UNALLOWED

### OMB Compliance Requirements

*For a cost to be allowable, it must (1) be for a purpose the specific award permits (tested in FACCR Section A)**and (2) fall within 2 CFR Part 200, Subpart E Cost Principles (tested in FACCR Section B). 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 auditors) 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 the auditor 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.*

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the federal statutes, regulations, and the terms and conditions of the Federal award pertaining to the program.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**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: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

States may select those activities that best meet the needs of their communities, in accordance with the national objectives and other requirements of the annual formula CDBG program. States must describe activities in the Consolidated Plan.

To meet a national objective, each activity must: benefit low- and moderate-income families; aid in the prevention or elimination of slums or blight; or meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available. The state must retain documentation justifying its certifications. The requirements for national objective criteria are contained in 24 CFR sections 570.483 and 570.490.

The requirements for eligible activities are contained in Section 105(a) of the HCDA (42 USC 5305(a)).

*1. Activities Allowed:*

a. Housing Activities

(1) Housing services related to HOME-funded activities

(2) Rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937

(3) Direct home ownership assistance to facilitate and expand home ownership among persons of low- and moderate-income

(4) Payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated

(5) Payment for repairs and operating expenses for acquired “in Rem” properties

(6) Lead-based paint hazard evaluation and removal

(7) Construction or improvement of tornado-safe shelters for residents of manufactured housing and provision of assistance to nonprofit and for- profit entities for such construction or improvement

b. Other Real Property Activities

(1) Acquisition of real property

(2) Disposition of real property acquired under this program

(3) Clearance, demolition, reconstruction, rehabilitation, and removal of buildings and improvements

(4) Code enforcement in deteriorated or deteriorating areas

(5) Relocation assistance

(6) Removal of architectural barriers that restrict accessibility of elderly or severely disabled persons

(7) Activities related to development of energy use strategies

c. Public Facilities and Improvements

(1) Acquisition, construction, reconstruction, or installation of public works, facilities and sites, or other improvements, including those that promote energy efficiency

d. Public Services

(1) Provision of public services subject to limitations contained in the CDBG regulations

e. Economic Development

(1) Payment to complete a Title 1 Federal Urban Renewal project

(2) Acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings

(3) Assistance to private, for-profit businesses, when appropriate to carry out an economic development project

(4) Assistance to public and private entities (including for-profits) to assist micro-enterprises

f. Community Based Development Organization

(1) Assistance to neighborhood-based nonprofit organizations, local development corporations, nonprofit organizations serving the development needs of communities in non-entitlement areas to carry out a neighborhood revitalization or community economic development or energy conservation project

g. Other types of activities

(1) Payment of the nonfederal share for another grant program that is part of the assisted activities

(2) Assistance to institutions of higher education to carry out eligible activities

h. Planning and Administration

(1) Planning activities

(2) Administrative costs

(3) Technical assistance to public or private entities for capacity building (exempt from the planning/administration cap)

States and non-entitlement UGLGs may have loans guaranteed by HUD through the Section 108 Loan Guarantee program. HUD may guarantee loan funds in an amount no greater than five times the state’s most recent annual CDBG grant, less amounts currently guaranteed or due for repayment.

*2. Activities Allowed - Section 108 loan guarantee*

The requirements for Section 108 loan guarantees are contained in Section 108 of the HCDA and 24 CFR section 570.703. Colonias are defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992.

a. Housing Activities

(1) housing rehabilitation

(2) construction of housing by nonprofit organizations for homeownership under Section 17 of the United States Housing Act of 1937 or Title VI of the Housing and Community Development Act of 1987

b. Other Real Property Activities

(1) acquisition of real property

(2) clearance, demolition, and removal

(3) relocation payments

c. Public Facilities and Improvements

(1) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements that serve “colonias”

(2) acquisition, construction, reconstruction, rehabilitation, or installation of public facilities (except for buildings for the general conduct of government), public streets, sidewalks, and other site improvements and public utilities

(3) rehabilitation of publicly owned real property

d. Economic Development

(1) eligible CDBG economic development activity

(2) site preparation related to redevelopment or use of real property acquired or rehabilitated pursuant to subpart M or for economic development purposes

e. Other types of activities

(1) payment of interest on Section 108 guaranteed obligations

(2) payment of issuance and other costs associated with private-sector financing under subpart M

(3) debt service reserve

*3. Activities Allowed or Unallowed - CDBG*

a. CDBG funds may not be used for income payments, which are not included among eligible activities in section 105(a) of the HCD Act. The phrase income payments means a series of subsistence-type grant payments made to an individual or family for items such as food, clothing, housing (rent or mortgage) or utilities, but excludes emergency payments made over a period of up to three consecutive months to the provider of such items or services on behalf of an individual or family.

b. The CDBG public benefit standards require certain activities to meet a defined public benefit, and prohibit funding of the following activities:

(1) General promotion of the community as a whole

(2) Assistance to professional sports teams

(3) Assistance to privately owned recreational facilities that serve a predominately higher-income clientele, where the recreational benefit to users or members clearly outweighs employment or other benefits to low- and moderate-income persons

(4) Acquisition of land for which the specific proposed use has not yet been identified; and

(5) Assistance to a for-profit business while that business or any other business owned by the same person(s)/entity(ies) is the subject of unresolved findings of noncompliance relating to previous CDBG assistance provided by the recipient.

The requirements for public benefits are contained in 24 CFR section 570.482(f).

*4.. Activities Allowed and Unallowed for CDBG-CV Program*

a. All eligible State CDBG activities for the annual formula CDBG are allowed; however, all activities must also prevent, prepare for, and respond to coronavirus. In addition, the following modifications apply:

b. Public Service Activities. The CARES Act and the [CDBG-CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf) eliminated the fifteen percent limitation on the use of CDBG-CV and 2019 and 2020 federal fiscal year CDBG funds to prevent, prepare for, and respond to coronavirus for public service activities (i.e., those activities set forth in Section 105(a)(8) of the HCDA). The cap is still routinely applied to all other 2019 and 2020 federal fiscal year CDBG-funded public service activities that do not address coronavirus.

c. Emergency Payments: HUD waived section 105(a)(8) of the HCD Act and 24 CFR 570.207(b)(4) only to the extent necessary to establish the following alternative requirement: CDBG-CV funds may be used to provide emergency payments for individuals or families impacted by coronavirus for items such as food, clothing, housing (emergency rental assistance or mortgage assistance) or utilities for up to six consecutive months. Emergency payments must be made to the provider of such items or services on behalf of an individual or family, and not directly to an individual or family in the form of income payments, debit cards, or similar direct income payments. CDBG-CV grantees must ensure that proper documentation is maintained to ensure that all costs incurred are eligible. Grantees using this alternative requirement must document, in their policies and procedures, how they will determine the amount of assistance to be provided is necessary and reasonable. This waiver is also applicable to 2019 and 2020 federal fiscal year CDBG funds used to prevent, prepare for, and respond to coronavirus.

d. The requirements for eligible activities are contained in Section III.B.5(f) of the [CDBG- CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf), Eligible Activities.

e. All CDBG-CV grantees are required to establish and maintain adequate procedures to prevent any duplication of benefits for assisted activities (as discussed in Section III.B.9. of the [CDBG-CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf)).

f. Grantees may use funds to cover or reimburse allowable costs of activities to prevent, prepare for, and respond to coronavirus incurred by a state or locality, including pre- award costs, incurred on January 21, 2020, or later. Any pre-award costs expended before that date must be approved by HUD.

g. A grantee may use CDBG-CV funds to make a direct payment of principal, interest, or any fees due under a Section 108 note only if the use of funds is to prevent, prepare for, and respond to coronavirus.

h. The requirements for eligible activities are contained in Section III.B.5(f) of the [CDBG- CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf), Eligible Activities.

*5. Activities Allowed or Unallowed for CDBG-DR and CDBG-MIT*

In addition to the activities allowed for State CDBG, the below flexibilities and unique requirements generally apply to CDBG-DR and CDBG-MIT funds:

a. Program administrative costs up to 5 percent of total grant amount and program income;

b. Program planning costs up to twenty percent combined with administration costs unless otherwise limited by the Federal Register notices to only fifteen percent of the total grant;

c. Public services cost up to fifteen percent of total grant amount and program income.

d. The HUD Secretary may provide waivers or specify alternative requirements if such waiver is not inconsistent with the overall purpose of Title I of the Housing and Community Development Act of 1974. Common CDBG-DR and CDBG-MIT activities that are eligible and/or modified through a waiver and alternative requirement include:

(1) *New housing construction*: HUD waives 42 USC 5305(a) and 24 CFR 570.207(b)(3) to the extent necessary to permit new housing construction.

(2) *Buyouts*: HUD waives 42 USC 5305(a) and establishes an alternative requirement only to the extent necessary to create a new eligible activity for buyouts. The term “buyouts” means the acquisition of properties located in a floodway, floodplain, or other Disaster Risk Reduction Area that is intended to reduce risk from future hazards.

(3) *Public benefit for activities that support economic revitalization*: HUD waives the public benefit standards for only those economic development activities designed to create or retain jobs or businesses; please consult applicable Federal Register notices for additional details.

e. CDBG-DR grantees, with the exception of local government grantees, must use at least eighty percent of their allocations to address unmet disaster needs or mitigation activities in the HUD-identified “most impacted and distressed” (MID) areas resulting from a qualifying major disaster. Local government grantees must use one hundred percent of their allocations in the HUD-identified MID areas.

f. CDBG-DR and CDBG-MIT grantees are required to establish and maintain adequate procedures to prevent any duplication of benefits (DOB). Grantees must consult their applicable Federal Register notices.

g. CDBG-DR awards after 2013

(1) Assistance for rehabilitation and housing incentives to second homes are prohibited.

(2) Business assistance is limited to small businesses.

h. CDBG-DR awards for 2015 disasters and beyond

(1) Use of administrative funds across multiple grants: The applicable Appropriations Acts authorize special treatment of grant administrative funds. Beginning in 2015, grantees that have received CDBG-DR or CDBG-MIT grants in the past or in any future acts, may use eligible administrative funds (up to 5 percent of each grant award plus up to 5 percent of program income generated by the grant) appropriated by these acts for the cost of administering any CDBG–DR or CDBG–MIT grant without regard to the particular disaster appropriation from which such funds originated.

i. CDBG-DR awards for disasters which occurred in 2017 and beyond

(1) Disaster funds cannot be used for rehabilitation/reconstruction assistance to persons with incomes that exceed one hundred and twenty percent area median income or the national median if they are in a floodplain and did not obtain flood insurance for the damaged property.

j. CDBG-DR awards subject to the Consolidated Notice (2020, 2021, 2022 disasters)

(1) *CDBG-DR mitigation set-aside*: The applicable Appropriations Acts require HUD to include in any allocation of CDBG-DR funds for unmet needs an additional amount of fifteen percent for mitigation activities, which HUD refers to as the “CDBG-DR mitigation set-aside.” Unlike recovery activities where grantees must demonstrate that their activities “tie-back” to the specific disaster and address a specific unmet recovery need for which the CDBG-DR funds were appropriated, activities funded by the CDBG-DR mitigation set-aside do not require such a “tie-back” to the specific qualified disaster that has served as the basis for the grantee’s allocation.

(2) *Interchangeability of disaster funds*: The applicable Appropriations Acts give the Secretary authority to authorize grantees that receive an award for 2020, 2021, and 2022 disasters and under prior or future appropriations to use those funds interchangeably and without limitation for the same activities related to unmet recovery needs in the “most impacted and distressed” (MID) areas resulting from a major disaster in the Appropriations Acts or in prior or future appropriation acts, when the MID areas overlap and when the use of the funds will address unmet recovery needs of major disasters in the Appropriations Acts or in any prior or future appropriation acts.

(3) *Prioritizing economic revitalization*: Under the Consolidated Notice, grantees are required to prioritize assistance to disaster-impacted businesses that serve underserved communities and spur economic opportunity for underserved communities that were economically distressed before the disaster.

(4) *Assistance to utilities*: Contrary to prior awards, the applicable Appropriations Acts provide that funds “may be used by a grantee to assist utilities as part of a disaster- related eligible activity under section 105(a) of the Housing and Community Development Act of 1974 (42 USC 5305(a)).”

k. CDBG-MIT

(1) Program administrative costs up to 5 percent of each grant award plus up to 5 percent of program income generated by the grant for the cost of administering any of these grants without regard to the particular disaster appropriation from which such funds originated.

(2) At least fifty percent of all CDBG-MIT funds must be used for mitigation activities that address identified risks within the HUD-identified “most impacted and distressed” (MID) areas.

l. All activities undertaken must meet one of the three national objectives of the regular CDBG program.

m. For applicable CDBG-DR and CDBG-MIT waivers or alternative requirements, auditors should consult the CDBG-DR laws, regulations, and Federal Register notices on HUD.gov: <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations>. This page includes the relevant Public Laws that appropriated CDBG- DR and CDBG-MIT funds, the applicable Federal Register notices governing those funds, and a short description of the subject or purpose of each Federal Register notice listed.

*6. Activities Allowed or Unallowed for NSP (NSP1 and NSP3)*

a. Grantees may use NSP1 and NSP3 funds to:

(1) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties;

(2) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon for later sale, rent, or redevelopment;

(3) Establish and operate land banks for homes that have been foreclosed upon (Section A of NSP1 [Bridge Notice](https://www.govinfo.gov/content/pkg/FR-2009-06-19/pdf/E9-14360.pdf) clarified that NSP funds can be used to establish and operate land banks);

(4) Demolish blighted structures; and

(5) Redevelop demolished or vacant properties.

b. A grantee must receive written HUD approval to undertake activities other than those listed above. An activity may meet the HERA-established low- and moderate-income national objective if the assisted activity:

(1) provides or improves permanent residential structures that will be occupied by a household whose income is at or below one hundred and twenty percent of area median income;

(2) serves an area in which at least fifty-one percent of the residents have incomes at or below one hundred and twenty percent of area median income; or

(3) serves a limited clientele whose incomes are at or below one hundred and twenty percent of area median income. An NSP activity may not meet the “prevent or eliminate slums and blight” or “address urgent community development needs” national objectives.

c. The requirements for eligible activities are contained in Section 2301(c)(3) of HERA, Section II.H.3.a. of the [NSP3 Notice](https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf), Section II.A. of the [NSP Definition and Modification Notice](https://www.govinfo.gov/content/pkg/FR-2010-04-09/pdf/2010-8131.pdf), and Section 1497(b)(2) of the Dodd-Frank Act. The requirements for national objective are contained in Section 2301(f)(3)(A) of HERA and Section II.E. of the NSP and NSP3 Notices.

*7. Activities Allowed or Unallowed for RHP*

RHP activities must provide stable, temporary housing to individuals in recovery from a substance use disorder, for a period of not more than two years or until the individual secures permanent housing, whichever is earlier. The requirements for eligible activities are contained in the RHP Program Notice. The following activities are eligible:

a. Housing

(1) Rehabilitation and reconstructions of single-unit residential buildings and improvements

(2) Rehabilitation and reconstructions of multi-unit residential buildings and improvements

(3) Rehabilitation and reconstruction of public housing and improvements

(4) Expansion of existing eligible activities to include new construction

b. Other Real Property Activities

(1) Acquisition of real property

(2) Disposition of real property

(3) Clearance and demolition

(4) Relocations

c. Public Facilities and Improvements

d. Public Services

(1) lease, rent, and utility payments as eligible public services

e. Grant Administration; And Technical Assistance

f. Grantees may use funds for pre-agreement costs incurred by the State or its recipients or subrecipients if they comply with RHP program requirements such as cost principles and environmental review procedures.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

Determining Allowability of Costs

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

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

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

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

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

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

*(Source:* [*Ohio Department of Development Housing Program Manual*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q245/O.KK6oRYONe4sqtby845rYiKpRNZcv5cMsDuoNVpcxo) *Page 19 and* [*CHIP Program Programmatic Information and Application Instructions)*](https://development.my.site.com/OCDTA/s/article/PY-2024-Community-Housing-Impact-and-Preservation-CHIP-Program-Application-Information)

### Audit Objectives and Control Testing

**Audit Objectives**

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether Federal awards were expended only for allowable activities.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors):*  **Person(s) responsible for performing the control procedure** *(Title):*  **Description of evidence documenting the control was applied** *(i.e. sampling unit):* |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  ***AOS Auditors:*** *Steps marked with an asterisk (\*) are addressed via the attributes in the payroll and non-payroll Federal Testing Templates available on the Intranet.*  1. Identify the types of activities which are either specifically allowed or prohibited by federal statutes, regulations, and the terms and conditions of the federal award pertaining to the program.  *Auditors should be able to identify these activities using Part 4 requirements as well as tailoring the “Additional Program Specific Information” section above.*  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

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## B. ALLOWABLE COSTS/COST PRINCIPLES

**Introduction**

The 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.

*(Source: 2024 OMB Compliance Supplement Part 3)*

*FACCR Section B includes five distinct testing sections, the first of which is always applicable.*

1. *Cost Principles for States, Local Governments, and Indian Tribes – testing guidance and steps included in FACCR, not separate testing document.*

*Auditors* ***must*** *evaluate if additional section(s) are applicable to their Entity, including sources reviewed to verify applicability. For applicable sections, auditors must pull the testing section(s) into their working papers and test accordingly.*

*Additional testing sections are located* [***here***](https://ohauditor.sharepoint.com/sites/Intranet/Shared%20Documents/Forms/AllItems.aspx?FolderCTID=0x0120002FFBFB1F4A3C3F47AE37C7A44E1C1EDE&id=%2Fsites%2FIntranet%2FShared%20Documents%2FAudit%5FResources%2FFederal%2FFACCRs%20and%20IRAFs&viewid=68cb3ab2%2D567e%2D456a%2D975c%2Da88f3e9c3727)*for AOS auditors and* [***here***](https://ohioauditor.gov/references/practiceaids/faccrs.html) *for IPA auditors.*

1. *De Minimis Indirect Cost Rate*
   1. *This section must be tested if the Entity utilizes the de minimis indirect cost rate to charge indirect costs to the grant, whether as a recipient or subrecipient.*
   2. *Applicability Determination:* **Auditors must specify here if this section is applicable to the Entity and identify which sources were reviewed to make the determination.**
   3. *If applicable, testing documents:* **Link to testing documents**
2. *Allowable Costs – State/Local Government-wide Central Service Costs*
   1. *This section must be tested if the Entity allocated costs to the grant using central service cost allocation plans (CAPs).*
   2. *Applicability Determination:* **Auditors must specify here if this section is applicable to the Entity and identify which sources were reviewed to make the determination.**
   3. *If applicable, testing documents:* **Link to testing documents**
3. *Allowable Costs – State Public Assistance Agency Costs*
   1. *This section must be tested if the Entity charged state public assistance agency costs to the grant.* 
      1. *State public assistance agency costs are defined as (1) all costs allocated or incurred by the State agency except expenditures for financial assistance, medical vendor payments, and payments for service and goods provided directly to program recipients and (2) normally charged to Federal awards by implementing the public assistance cost allocation plan (CAP).*
      2. *This may be applicable at the local level if local entities perform procedures to support the State compliance (for example, this may occur with JFS programs)*
   2. *Applicability Determination:* **Auditors must specify here if this section is applicable to the Entity and identify which sources were reviewed to make the determination.**
   3. *If applicable, testing documents:* **Link to testing documents**
4. *Cost Principles for Nonprofit Organizations* 
   1. *This section must be tested if the Entity is a nonprofit organization.*
   2. *Applicability Determination:* **Auditors must specify here if this section is applicable to the Entity and identify which sources were reviewed to make the determination.**
   3. *If applicable, testing documents:* **Link to testing documents**

### Applicability of Cost Principles

*For a cost to be allowable, it must (1) be for a purpose the specific award permits (tested in FACCR Section A) and (2) fall within 2 CFR Part 200, Subpart E Cost Principles (tested in FACCR Section B). 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 the auditor 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.*

*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.*

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 grant agreements and cooperative agreements with the exception of those providing food commodities. The cost principles do not apply to grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, and insurance; and programs listed in 2 CFR 200.101(e) (see Appendix I of the 2024 OMB Compliance 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](45_CFR_Part_75.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: 2024 OMB Compliance Supplement Part 3)*

**Source of Governing Requirements**

The requirements for allowable costs and 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: 2024 OMB Compliance Supplement Part 3)*

**Basic Guidelines**

Except where otherwise authorized by statute, costs 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.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**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: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

The requirements are found at 24 CFR section 570.489(p) Cost Principles and Prior Approval. All items of costs listed in 2 CFR Part 200, Subpart E, which require prior federal approval are allowable without prior approval, except the following:

1. Depreciation. Prior written approval from HUD is required for depreciation methods for fixed assets.

2. Fines, penalties, damages and other settlements. Not allowed.

3. Good or services for personal use. Prior written approval from HUD is required for costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses, regardless of whether reported as taxable income to the employees.

4. Organizational costs. Prior written approval from HUD is required.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

***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.*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

Grantees receiving federal funds must comply with the following: 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”

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

Determining Allowability of Costs

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

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

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

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

Documentation of Approved Indirect Cost Rate Proposal

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

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

Audit Costs

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

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

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

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

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

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

### OMB Compliance Requirements

**Direct Costs**

1. Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
2. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Indirect Costs**

* 1. *Allocation of Indirect Costs and Determination of Indirect Cost Rates*

1. The specific methods for allocating indirect costs and computing indirect cost rates are as follows:
   1. *Simplified Method* – This method is applicable where a governmental unit’s department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in 2 CFR Part 200, Appendix VII, paragraph C.2.
   2. *Multiple Allocation Base Method* – This method is applicable where a governmental unit’s department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR Part 200, Appendix VII, paragraph C.3.)
   3. *Special Indirect Cost Rates* – In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs (e.g., the physical location of the work, the nature of the facilities, or level of administrative support required). (For the requirements for a separate indirect cost rate, refer to 2 CFR Part 200, Appendix VII, paragraph C.4.)
   4. *Cost Allocation Plans* – In certain cases, the cognizant agency for indirect costs may require a state or local government o unit’s department or agency to prepare a CAP instead of an ICRP. These are infrequently occurring cases in which the nature of the department or agency’s federal awards makes impracticable the use of a rate to recover indirect costs. A CAP required in such cases consists of narrative descriptions of the methods the department or agency uses to allocate indirect costs to programs, awards, or other cost objectives. Like an ICRP, the CAP either must be submitted to the cognizant agency for indirect cost for review, negotiation, and approval, or retained on file for inspection during audits.
   5. *Submission Requirements*
2. Submission requirements are identified in 2 CFR Part 200, Appendix VII, paragraph D.1. All departments or agencies of a governmental unit claiming indirect costs under federal awards must prepare an ICRP and related documentation to support those costs.
3. A state/local department or agency or Indian tribe that receives more than $35 million in direct federal funding must submit its ICRP to its cognizant agency for indirect costs. Other state/local government departments or agencies that are not required to submit a proposal to the cognizant agency for indirect costs must develop an ICRP in accordance with the requirements of 2 CFR Part 200 and maintain the proposal and related supporting documentation for audit.
4. Where a government receives funds as a subrecipient only, the pass-through entity will be responsible for the indirect cost rate used (2 CFR section 200.331(a)(4)).
5. Each Indian tribe desiring reimbursement of indirect costs must submit its ICRP to the DOI (its cognizant agency for indirect costs).
6. ICRPs must be developed (and, when required, submitted) within 6 months after the close of the governmental unit’s fiscal year, unless an exception is approved by the cognizant agency for indirect costs.
   1. *Documentation and Certification Requirements*

The documentation and certification requirements for ICRPs are included in 2 CFR Part 200, Appendix VII, paragraphs D.2 and 3, respectively. The proposal and related documentation must be retained for audit in accordance with the record retention requirements contained in 2 CFR section 200.334(f).

*(Source: 2024 OMB Compliance Supplement Part 3)*

**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.

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: 2024 OMB Compliance Supplement Part 3)*

#### Audit Objectives 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: 2024 OMB Compliance Supplement Part 3)*

**Audit Objectives**

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

**Audit Objectives: Direct Costs**

1. Determine whether the organization complied with the provisions of 2 CFR Part 200 as follows:
2. Direct charges to federal awards were for allowable costs.
3. 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**

1. Determine whether the governmental unit complied with the provisions of 2 CFR Part 200 as follows:
2. Charges to cost pools used in calculating indirect cost rates were for allowable costs.
3. 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).
4. Indirect cost rates were applied in accordance with negotiated indirect cost rate agreements (ICRA).
5. 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: 2024 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.* 
    - *Reference to Written Policy:* **Auditors must include a reference here to the Entity’s written policy which addresses this requirement. If the Entity does not have a written policy, auditors must document a reaction/conclusion.**
  + *2 CFR 200.430 for allowability of compensation costs.* 
    - *Reference to Written Policy:* **Auditors must include a reference here to the Entity’s written policy which addresses this requirement. If the Entity does not have a written policy, auditors must document a reaction/conclusion.**
  + *2 CFR 200.431 for written leave policies.* 
    - *Reference to Written Policy:* **Auditors must include a reference here to the Entity’s written policy which addresses this requirement. If the Entity does not have a written policy, auditors must document a reaction/conclusion.**
  + *2 CFR 200.464(a)(2) for reimbursement of relocation costs.* 
    - *Reference to Written Policy:* **Auditors must include a reference here to the Entity’s written policy which addresses this requirement. If the Entity does not have a written policy, auditors must document a reaction/conclusion.**
  + *2 CFR 200.475 for travel reimbursements.* 
    - *Reference to Written Policy:* **Auditors must include a reference here to the Entity’s written policy which addresses this requirement. If the Entity does not have a written policy, auditors must document a reaction/conclusion.**
* *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.*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

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

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  ***AOS Auditors:*** *Steps marked with an asterisk (\*) are addressed via the attributes in the payroll and non-payroll Federal Testing Templates available on the Intranet.*  ***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.  *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.*  *As a reminder, this is a policy-based requirement. If employees are partially paid from at least one federal grant, auditors should review the auditee’s policy for ensuring employee pay is allocated to federal programs based on actual time spent on each program and test accordingly.*  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).  *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.*  *As a reminder, this is a policy-based requirement. If employees are partially paid from at least one federal grant, auditors should review the auditee’s policy for ensuring employee pay is allocated to federal programs based on actual time spent on each program and test accordingly.*  (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_the_ICRP_discussion.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. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*  ***This box should include results of applicable additional testing sections as determined at the beginning of Section B.***   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

*Additional guidance regarding applicability determinations is included in the Suggested Audit Procedures.*

### OMB Compliance Requirements

***Equipment Management – Grants and Cooperative Agreements***

Equipment means tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000 (2 CFR 200.1\_Equipment). Title to equipment acquired by a non-Federal entity under grants and cooperative agreements vests in the non-Federal entity subject to certain obligations and conditions (2 CFR 200.313(a)).

*Non-Federal Entities Other than States*

Non-Federal entities other than States must follow 2 CFR 200.313(c) through (e) which require that:

1. Equipment, including replacement equipment, be used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award or, when appropriate, under other Federal awards; however, the non-Federal entity must not encumber the equipment without prior approval of the Federal awarding agency (2 CFR 200.313(c) and (e)).
2. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property (2 CFR 200.313(d)(1)).
3. A physical inventory of the property must be taken and the results reconciled with the property records at least once every 2 years (2 CFR 200.313(d)(2)).
4. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated (2 CFR 200.313(d)(3)).
5. Adequate maintenance procedures must be developed to keep the property in good condition (2 CFR 200.313(d)(4)).
6. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return (2 CFR 200.313(d)(5)).

7. When original or replacement equipment acquired under a Federal award is no longer needed for a Federal program (whether the original project or program or other activities currently or previously supported by the Federal government), the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the award. Items of equipment with a current per-unit fair market value of $5,000 or less may be retained, sold, or otherwise disposed of with no further obligation to the Federal awarding agency. If the Federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold. The Federal awarding agency is entitled to the Federal interest in the equipment, which is the amount calculated by multiplying the current market value or sale proceeds by the Federal agency’s participation in total project costs (2 CFR 200.313(e).

OMB Note: Intangible property that is acquired under a Federal award, rather than developed or produced under the award, is subject the requirements of 2 CFR 200.313(e) regarding disposition (2 CFR 200.315(a)).

***Real Property Management -- Grants and Cooperative Agreements***

Title to real property acquired or improved by non-Federal entities under grants and cooperative agreements vests in the non-Federal entity subject to the obligations and conditions specified in 2 CFR 200.311 (2 CFR 200.311(a)). Real property will be used for the originally authorized purpose as long as needed for that purpose, during which time the non-Federal entity must not dispose of or encumber title to or other interests in the real property (2 CFR 200.311(b)).

When real property is no longer needed for the originally authorized purpose, the non-Federal entity must obtain disposition instructions from the Federal awarding agency or the pass-through entity, as applicable. When real property is sold, sales procedures must be followed that provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities must compensate the Federal awarding agency for the portion of the net sales proceeds that represents the Federal agency’s interest in the real property, which is the amount calculated by multiplying the current market value or sale proceeds by the Federal agency’s participation in total project costs. If the property is retained, the non-Federal entity must compensate the Federal awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title to the Federal awarding agency or a designated third party, in which case the non-Federal entity is entitled to the non-Federal interest in the property, which is calculated by multiplying the current market value or sale proceeds by the non-Federal entity’s share in total project costs (2 CFR 200.311(c)(3)).

***Equipment and Real Property Management – Cost-Reimbursement Contracts Under the Federal Acquisition Regulation (FAR)***

Equipment and real property management requirements for cost-reimbursement contracts are specified in the FAR clause at [48 CFR 52.245-1](48_CFR_Part_52.pdf). Federal government property as defined in the FAR includes both equipment and real property. Title to Federal government property acquired by a non-Federal entity normally vests in the Federal government, unless otherwise noted in the contract terms and conditions. The FAR requires:

1. A system of internal controls to manage (control, use, preserve, protect, repair, and maintain) Federal government property and a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Federal government property.
2. Federal government property must be used for performing the contract for which it was acquired unless otherwise provided for in the contract or approved by the Federal awarding agency.
3. Property records must be maintained and include the name, part number and description, and other elements as necessary and required in accordance with the terms and conditions of the contract, quantity received, unit acquisition cost, unique-item identifier, accountable contract number, location, disposition, and posting reference and date of transaction.
4. A physical inventory must be periodically performed, recorded, and disclosed. Except as provided for in the contract, the non-Federal entity must not dispose of inventory until authorized by the Federal awarding agency. The non-Federal entity may purchase the property at the unit acquisition cost if desired or make reasonable efforts to return unused property to the appropriate supplier at fair market value.

**Source of Governing Requirements**

The requirements for equipment and real property are contained in 2 CFR 200.313 (equipment), 2 CFR 200.311 (real property), [48 CFR 52.245-1](48_CFR_Part_52.pdf) (equipment and real property), program legislation, Federal awarding agency regulations, and the terms and conditions of the Federal award.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

1. 24 CFR 570.489(k) *Accountability for real and personal property*. States are allowed to establish and implement their own requirements governing the use, management, and disposition of real and personal property acquired with CDBG funds. States may adopt 2 CFR Part 200 or set alternative requirements consistent with State law and 24 CFR 570 subpart I.

2. 24 CFR 570.489(j) *Change of use of real property*. Change of use of real property requirements for real property within the unit of general local government’s control (including activities undertaken by subrecipients) which was acquired or improved in whole or in part using CDBG funds in excess of the threshold for the simplified acquisition threshold (2 CFR 200.1). These standards shall apply from the date CDBG funds are first spent for the property until five years after closeout of the unit of general local government’s grant from the state.

3. 24 CFR 570.489(j) *Change of use of real property held by beneficiaries*. Change of use of real property requirements are not applicable to real property held by beneficiaries. For example, CDBG grantees are not required to place property liens and other resale/repayment provisions upon housing-related assistance provided to low- and moderate-income households, though some grantees and subrecipients may choose to establish and implement such requirements.

4. For State CDBG and CDBG-CV grantees, the requirements for personal property (equipment) and real property management are contained in 24 CFR section 570.489(j) and (k).

5. *NSP (NSP1 and NSP3)*. NSP grantees that have established and currently operate land banks for homes and residential properties that have been foreclosed upon should have in place a land bank management plan that will facilitate management and eventual disposition of the land bank inventory.

Disposition costs include the “reasonable costs of temporarily managing such property.” HUD interprets this to include ongoing maintenance such as board-up, lawn-mowing, spot repairs, and other related functions that keep the property in a condition that stabilizes the neighborhood. Grantees managing scattered-site properties meeting the CDBG definition of a disposition activity must identify each property as a separate disposition activity in the Integrated Disbursement and Information System (IDIS).

The requirements for real property management for land banks are contained in the Federal Register Notice of Neighborhood Stabilization Program; Closeout Requirements and Recapture (77 FR 70799). The requirements for disposition are contained in the definition at 24 CFR 570.201(b).

6. *RHP*. The statutory and regulatory provisions governing the CDBG program shall apply to grantees. For purposes of the RHP program, all references to “unit of general local government” in 24 CFR 570.489(j) shall be read as “state and unit of general local government.”

RHP funds may be used for disposition through sale, lease, or donation, or otherwise of real property acquired with RHP funds subject to 24 CFR 570.201(b) and section 105(a)(7) of the HCD Act (42 USC 5305(a)(7)), for the purpose of providing stable, temporary housing for individuals in recovery from a substance use disorder. Eligible costs may include costs incidental to disposing of the property, such as preparation of legal documents, fees paid for surveys, transfer taxes, and other costs involved in the transfer of ownership of the RHP- assisted property.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

a. *Purchase of Equipment:*

Equipment is defined as tangible, nonexpendable property having a useful life of more than one year and an acquisition cost of $1,000 or more per “unit.” Unit is defined as an individual item, except in the case of computer systems. For computer systems, each workstation (CPU/monitor/software) will count as one unit.

If the purchase cost is less than $5,000 per unit, the grant recipient may purchase the equipment without CSD approval. However, complete inventory records must be maintained.

If the purchase price is $5,000 or more per unit, a written request must be submitted to and approved by CSD prior to the acquisition. The request must include the following information: how the equipment will be used; why it is needed; and if it will be used for non-CSD administered program activities. If the request is approved, complete inventory records must be maintained.

b. *Disposition of Equipment:*

If a grantee plans to dispose of equipment purchased with CSD-administered federal funds that has a fair market value of $5,000 or more, the grantee must contact CSD for instructions of how to dispose of the equipment in conformance to 2 CFR 200.313(e) – Disposition, as this requires CSD to request disposition instructions from HUD.

Items of equipment with a current per unit fair market value of $5,000 or less may be retained, sold or otherwise disposed of with no further obligation to CSD or HUD.

c. *Inventory Record Requirements:*

As soon as any equipment is purchased with CSD-awarded funds, grantees must update the inventory records. In addition, a full inventory must be completed every two years. Inventory records must include: a description of the equipment; the serial number or other identification number assigned to the equipment; the source(s) of funding used to purchase the equipment and the percentage of participation; the acquisition date; the acquisition cost; the location of the property; and disposition data, including date of disposal and sales price.

d. *Control System Requirements:*

A control system must be developed to ensure that adequate safeguards exist to prevent loss, damage or theft of the property. Any loss, damage or theft must be investigated. The grantee must implement adequate maintenance procedures to keep the property in good condition. If the grantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Pages 7-8)*

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

### Audit Objectives and Control Testing

**Audit Objectives**

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

2. Determine whether the non-federal entity maintains proper records for equipment and adequately safeguards and maintains equipment.

3. Determine whether disposition or encumbrance of any equipment or real property acquired or improved under federal awards is in accordance with federal requirements and, when applicable, the federal awarding agency was properly compensated for its portion of property sold or converted to non-federal use.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  ***AOS Auditors:*** *Steps marked with an asterisk (\*) are addressed via the attributes in the Equipment Federal Testing Template available on the Intranet.*  *Step 1 is omitted as it is only applicable to States.*  2. Inventory Management of Equipment Acquired Under Federal Awards  *Question 2a is asking about purchases made during the year with federal funds – are the purchases properly recorded and do the records include the required information? Questions 2b and 2c are asking about existing inventory; even if the entity had no purchases during the current year, it’s common to have existing inventory purchased in a prior year from federal funds.*  **\***a. Identify equipment acquired and trace selected purchases to the property records. Verify that the property records contain the required information.  b. Verify that the required physical inventory of equipment was performed. Test whether any differences between the physical inventory and equipment records were resolved.  **\***c. Select a sample from all equipment acquired under Federal awards from the property records and physically inspect the equipment and determine whether the equipment is appropriately safeguarded and maintained.  3. Disposition of Equipment Acquired Under Federal Awards  **\***a. Identify equipment dispositions for the audit period and perform procedures to verify that the dispositions of equipment acquired under Federal awards were properly reflected in the property records.  b. For dispositions of equipment acquired under grants and cooperative agreements with a current per-unit fair market value of $5,000 or more, verify whether the Federal awarding agency was reimbursed for the Federal portion of the current market value or sales proceeds.  c. For dispositions of equipment acquired under cost-reimbursement contracts, verify that the non-Federal entity followed Federal awarding agency disposition instructions.  *All Non-Federal Entities (including both states and other non-federal entities)*  4. Disposition of Real Property Acquired Under Federal Awards  a. Identify real property dispositions for the audit period and determine whether such real property was acquired or improved under Federal awards.  b. For dispositions of real property acquired or improved under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the Federal awarding agency or pass-through entity, which normally require reimbursement to the Federal awarding agency for the Federal portion of net sales proceeds or fair market value at the time of disposition, as applicable. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## H. PERIOD OF PERFORMANCE

### 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 120 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).

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,” and “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: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

1. *CDBG*. A grantee must expend all State CDBG funds by September 30 of their eighth federal fiscal year, including the fiscal year of the appropriation. For example, the CDBG grant account will cancel at the end of FY2027 for funds appropriated in FY2020.

Grantees and their subgrantees may incur costs prior to the effective date of the CDBG grant agreement with HUD. The grantee or subgrantee may then pay those costs (including reimbursing itself if it used its own funds to pay the costs) after the effective date of the grant agreement if it complies with program requirements.

The requirements for period of performance are contained in 24 CFR 570.480(h). The obligation period is established by obligation legislation which has established a three- year obligation period for open awards.

2. *CDBG-CV*. A grantee must expend all CDBG-CV funds (including CDBG-CV funds from additional allocations that are obligated by HUD through amendments to the grant agreement) within the six-year period of performance established by the CDBG-CV grant agreement.

The requirements for period of performance are contained in Section III.B.7. of the [CDBG-CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf).

3. *CDBG-DR and CDBG-MIT*. A grantee is required to expend its grant funds as soon as possible following the execution of a grant agreement with HUD. HUD instituted a six- year expenditure deadline on all CDBG-DR grantees. A grantee receiving CDBG-DR grants under the Public Laws listed below are required to expend one hundred percent of the grant on eligible activities within six years of HUD’s execution of the initial grant agreement.

a. Additionally, a CDBG-MIT grantee must expend fifty percent of the grant on eligible activities within six years of HUD’s execution of the grant agreement and one hundred percent of its grant within 12 years of HUD’s execution of the agreement.

b. CDBG-DR funds awarded under these public laws are eligible for an expenditure extension for up to two years to provide grantees with flexibility during the COVID-19 pandemic.

A grantee receiving CDBG-DR awards prior to Pub. L. 113-2 (or under the Public Laws listed in Section 4) must expend one hundred percent of the funds within two years of the date its grant agreement with HUD is executed. Generally, a remaining active CDBG-DR grantee has funds available until expended.

The following public laws apply to the corresponding information above regarding extensions and is listed in the table below.

|  |  |
| --- | --- |
| **Public Law(s)** | **Expenditure Deadline** |
| 114-113, 114-223, 114-254, 115-31, 115-56, | Expend 100% within six years. |
| 115-123, 115-254, 116-20, 117-43, 117-180, |  |
| 117-328 |  |
| 115-123 and 116-20 | Expend 50% within six years and 100% within 12 years. |
| 114-113, 114-223, 114-254, 115-31, 115-56,  115-123 | Eligible for an expenditure extension for up to two years to provide grantees with flexibility during the COVID-19 pandemic. |
| 113-2 | To remain available until expended. |
| 107-73, 107-38, 107-117, 117-206, 108-324, 109-148, 109-324, 109-148, 109-234, 110-116, 110-252, 110-329, 111-212, 112-55 | Expend 100% of the funds within two years of the date its grant agreement with HUD is executed. |

For funds appropriated under Pub. L. 114-113, 114-254, 115-31, 115-56, 115-123, 115-254, 116-20, 117-43, 117-180, and 117-328 for CDBG-DR and CDBG-MIT grants, HUD may extend the period of performance administratively, if good cause for such an extension exists, as requested by the grantee, and approved by HUD.

4. *NSP NSP1* grantees must expend an amount equal to or greater than the initial allocation of NSP1 funds within four years of receipt of those funds.

NSP3 grantees must expend an amount equal to or greater than fifty percent of their initial allocation of NSP3 funds within two years of receipt of those funds and one hundred percent of their initial allocation of NSP3 funds within three years of receipt of those funds.

The requirements for the period of performance for NSP1 funds are contained in Section II.M. of the [NSP3 Notice](https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf).

5. *RHP*. The grantee must expend all RHP funds before the end of the period of performance on September 1 of the seventh Federal fiscal year from the fiscal year of the appropriation. For example, an RHP grantee must expend all RHP funding appropriated in the FY 20 Appropriations Act by September 1, 2027. The requirements for the period of performance for RHP funds are contained in Section II.C. of the [RHP Notice 2](https://www.govinfo.gov/content/pkg/FR-2021-07-21/pdf/2021-15515.pdf).

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

Determining Allowability of Costs

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

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

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

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

### Audit Objectives and Control Testing

**Audit Objectives**

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

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: 2024 OMB Compliance Supplement Part 3)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  ***AOS Auditors:*** *Steps marked with an asterisk (\*) are addressed via the attributes in the payroll and non-payroll Federal Testing Templates available on the Intranet.*  1. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of performance.  *This step should be addressed when auditors tailor the “Additional Program Specific Information.”*  \*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

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## J. PROGRAM INCOME

### OMB Compliance Requirements

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

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

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

Program income does not include:

* Interest earned on advances of Federal funds.
* Except as otherwise provided in Federal statutes, regulations or the terms and conditions of the Federal award, rebates, credits, discounts and interest earned on any of them.
* Taxes, special assessments, levies, fines, and other such revenues raised by a non-Federal entity, unless the Federal award or Federal awarding agency regulations specifically identify the revenues as program income (2 CFR 200.307(c)).
* The proceeds from the sale of equipment or real property acquired in whole or in part under the Federal award (2 CFR 200.307(d)).
* Royalties or income earned by an institution of higher education or a nonprofit organization on inventions conceived or first actually reduced to practice in the performance of work under a funding agreement with a Federal agency that is shared with the inventor (2 CFR 200.307(g); [37 CFR 401.2](37_CFR_part_401.pdf) and [401.14(k)](37_CFR_part_401.pdf); 35 USC 201(i), and 35 USC 202(c)(7)(B)).

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

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

1. *Deduction*.

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

2. *Addition*.

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

3. *Cost Sharing or Matching*.

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

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

**Source of Governing Requirements**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

*1.* *CDBG*. The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules.

Program income is the gross income received by the grantee and its subrecipients directly generated from the use of CDBG funds. Per 24 CFR 570.489(e), Program income includes the following:

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

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

c. Gross income from the use or rental of real or personal property acquired, constructed or improved by the grantee (or a subrecipient), less costs incidental to the generation of income;

d. Payments of principal and interest on loans made using CDBG funds;

e. Proceeds from the sale of loans or obligations secured by loans made with CDBG funds;

f. Interest earned on program income pending its disposition (NOTE: interest earned on CDBG funds held in revolving loan funds is not program income and must be remitted to the U.S. Treasury at least annually); and

g. Funds collected through special assessments on properties not owned and occupied by LMI households to recover the CDBG portion of a public improvement.

Program income does not include income up to $35,000 (other than receipts from revolving loan funds) received in a single program year by a UGLG and its subrecipients.

Proceeds from the sale of real property purchased or improved with CDBG funds are not program income if the proceeds are received more than five years after closeout of the grant agreement between the state and the unit of general local government.

The requirements for program income for the State CDBG program are contained in 24 CFR section 570.489(e) and (f).

*2. CDBG-CV*

The receipt and expenditure of program income that is generated using CDBG-CV funds is treated as annual formula CDBG program income and recorded as part of the financial transactions of the annual formula CDBG grant program.

Based on this treatment of program income, the use of CDBG-CV funds for float-funded activities or guarantees as described at section 104(h) of the HCDA is not allowed.

The requirements for program income for the CDBG-CV program are contained in Section III.B.6(a) of the [CDBG-CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf)

*3. CDBG-DR and CDBG-MIT*

Program income is revenue generated from a CDBG or CDBG-DR eligible activity. HUD grantees adhere to the program income requirements in CDBG regulation 24 CFR § 570.504, unless program income is waived by HUD. The Federal Register notices include waivers and alternative requirements associated with each grant, thereby waiving program income, or providing an alternative requirement in each applicable notice. The grantee must receipt program income and expenditures in the Disaster Recovery Grant Reporting (DRGR) system. Program income must be expended in DRGR before drawing additional program funds.

There are several ways the grantee can generate program income. Program income can be generated in the following ways, but not limited to:

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

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

c. Gross income from the use or rental of real or personal property acquired, constructed or improved by the grantee (or a subrecipient), less costs incidental to the generation of income;

d. Payments of principal and interest on loans made using CDBG funds; and

e. Proceeds from the sale of loans or obligations secured by loans made with CDBG funds.

As outlined above, the program income requirements for CDBG-DR and CDBG-MIT grants are contained in Federal Register notices, which can be viewed at <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations>.

*4. NSP*

NSP revenue received by a state, unit of general local government, or subrecipient that is directly generated from the use of CDBG funds (which includes NSP grant funds) constitutes CDBG program income. The CDBG definition of program income shall be applied to amounts received by states, units of general local government, and subrecipients.

Any revenue from the sale, rental, redevelopment, rehabilitation, or any other eligible use of NSP funds is to be provided to and used by the state or unit of general local government. Revenue received by a private individual or other entity that is not a subrecipient is not required to be returned to the state or unit of general local government.

The requirements for program income for the NSP program are contained in 24 CFR 570.500 and Section II.N. of the [NSP3 Notice](https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf), and Section B of [NSP1 Bridge Notice](https://www.hudexchange.info/resource/624/nsp1-federal-register-bridge-notice-june-19-2009/) and Sections 2301(c)(3) of HERA.

*5. RHP*

Program income includes gross income received by subrecipients that was generated from the use of RHP funds.

Program income excludes any income received and retained by a nonprofit operating within the grantee’s jurisdiction whose primary mission includes serving individuals in recovery from substance use disorder. If a grantee chooses to require the nonprofit to return income generated from the use of RHP funds, the income returned by the nonprofit to the grantee would be defined as program income.

Prior to closeout, RHP grantee must transfer RHP program income and assets to another open RHP grant or to its CDBG program. Program income and assets received by a grantee after closeout of all RHP grants must be transferred to the grantee’s annual CDBG award. Once transferred to the annual program, the waivers and alternative requirements that apply to the RHP grant no longer apply to the use of transferred program income. Rather, those funds will be subject to the grantee’s regular CDBG program rules.

States must require units of general local government to return RHP program income if it will not continue the originally funded RHP activity. States must treat the funds as program income.

Income generated from the use of RHP funds is subject to 42 USC 5304(j) and 24 CFR 570.489(e); however, alternative requirements may be found in the RHP Program Notice.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

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

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

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

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

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

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

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

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

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

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

B. CDBG Program Income does not include:

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

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

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

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

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

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

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

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

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

Program Income

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

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

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

### Audit Objectives and Control Testing

**Audit Objectives**

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  1. *Identify Program Income*  a. Review the statutes, regulations, and terms and conditions of the Federal award applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.  b. Inquire of management and review accounting records to ascertain if program income was received.  2. *Determining or Assessing Program Income* – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that amounts collected were classified as program income only if collected from allowable sources.  3. *Recording of Program Income* – Perform tests to verify that all program income was properly recorded in the accounting records.  4. *Use of Program Income* – Perform tests to ascertain if program income was used in accordance with 2 CFR 200.307(e) and the program requirements set by the Federalawarding agency in its regulations and the terms and conditions of the award. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## L. REPORTING

### OMB Compliance Requirements

*Financial Reporting*

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

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

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

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

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

Electronic versions of the standard forms are located on agency’s home page.

Financial reporting requirements for cost reimbursement contracts subject to the Federal Acquisition Regulation (FAR) are contained in the terms and conditions of the contract.

*Performance and Special Reporting*

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

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

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

**Federal Funding Accountability and Transparency Act**

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

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

*Federal Funding Accountability and Transparency Act*

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

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

Consistent with the OMB guidance,

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

• [FAR 52.204-10(a)](FAR_52.204-10.pdf) defines “first-tier subcontract” to mean a subcontract awarded directly by a contractor to acquire supplies or services (including construction) for performance of a prime contract, but excludes the contractor’s supplier agreements with vendors, such as long-term arrangements for materials or supplies that benefit multiple contracts or the costs of which would normally be applied to a contractor's general and administrative expenses or indirect cost.

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

*Reporting Site*

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

*Key Data Elements*

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

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

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

**Source of Governing Requirements**

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

1. Financial reporting, 2 CFR 200.328
2. Monitoring and reporting program performance, 2 CFR 200.329
3. Program legislation.
4. Transparency Act, implementing requirements in 2 CFR Part 170 and the FAR, and the previously listed OMB guidance documents.
5. Federal awarding agency regulations.
6. The terms and conditions of the award.

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

**1. Financial Reporting**

a. *SF-270, Request for Advance or Reimbursement* – Not Applicable

b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. *SF-425, Federal Financial Report* – Not Applicable to State CDBG and State CDBG-CV (see CPD Notice 21-11).

For NSP and RHP grantees, the SF-425 is provided annually.

For CDBG-DR and CDBG-MIT, SF-425, Federal Financial Report – Applicable. This information is reflected in the Disaster Reporting Grant Reporting System (DRGR).

d. For State CDBG and State CDBG-CV the following reports are required:

(1) *CDBG Annual Formula Grants PR28 Performance and Evaluation (PER)* Financial Summary Report (OMB No. 2506-0085) submitted annually, and

(2) *CDBG-CV PR28 Grant Financial Summary*, submitted annually.

The PR28 Financial Summary Report instructions are found in Notice CPD-21- 11, which is available at: <https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-11cpdn.pdf>

This includes a checklist for the review of the report. Auditors should find a PR28 Financial Summary for each open grant as an attachment to the Consolidated Annual Performance Report (CAPER) which are published at <https://www.hudexchange.info/programs/consolidated-plan/con-plans-aaps-capers/>.

**2. Performance Reporting -** Not Applicable.

**3. Special Reporting -** Not Applicable.

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See OMB Compliance Requirements section above for audit guidance. The Federal Funding Accountability and Transparency Act of 2006, FFATA is applicable to State CDBG, State CDBG-CV, CDBG-DR, NSP, and RHP.

*This FACCR was written for funding passed through Ohio Department of Development. FFATA is not applicable to pass-through funding. If direct funding was received, contact CFAE.*

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

All Community Development Block Grant Program funds are reported to Development’s Community Services Division (CSD). There are two reports the Auditor should consider:

* OCEAN Draw Request
* Final Performance Report

Draw/Disbursement Requests

The grantee must submit an OCEAN grants management system user agreement prior to requesting grant funds. Using OCEAN, the grantee must execute a draw request each time funds are required to meet disbursement needs.

The timing and amount of draw/disbursement requests from the state of Ohio by the grantee for activities which are free from special conditions specified in the Grant Agreement will be as close as administratively feasible to the actual disbursement needs of the grantee.

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

Final Performance Report

a. The required final performance report will be generated by CSD and distributed to the grantee via the OCEAN. The grantee must complete the required report and submit it to CSD via the OCEAN. The failure of a recipient to submit a report as required will not preclude the state from affecting a grant closeout when such action is determined to be in the best interest of the state. The failure or refusal of a recipient to comply with this requirement will be taken into account in the performance determination by the state in reviewing any further grant applications from the recipient.

Any excess grant amount which is otherwise authorized to be retained by the recipient will be refunded to the state in the event of a recipient’s failure to furnish the report as required under this section.

b. A final review of the recipient’s compliance with the grant agreement and applicable laws and regulations will be made during the final audit.

c. Audit Submission Requirements for Federally Funded Grants: Grantees expending federal funds in a fiscal year equal to or exceeding the threshold amount set forth in 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, must have a single audit performed.

d. Audit reports must be submitted to the Federal Audit Clearinghouse (FAC) as part of the reporting package. Within 7 days of the submission of the audit reporting package to the FAC, the grantee must submit a notification to [singleaudit@development.ohio.gov](mailto:singleaudit@development.ohio.gov). The grantee may include a copy of the audit report with the notification submission.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk) *Pages 9-10)*

Rounding Grant Funds

The amount of funds requested for each activity in the grant application should be rounded to the **nearest one hundred dollars**.

Each activity in a draw request, amendment, or performance report should be rounded to the **nearest dollar**.

*(Source:* [*ODOD OCD Program Policy Notice 20-01*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000wrbP/1DTnUDfJ4XkMa32tbiDNcjvv9iGieguvQksyt.UbJYk)*, Page 5)*

Auditors should refer to Attachment C, Required Reports, of the CSD Grant Agreement for an outline of the required reports that the grantee must submit to CSD, including interim status reports, the final performance report and any audit reports that may be required by federal circulars and OCD policy.

*(Source:* [*Ohio Department of Development Housing Program Manual*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q245/O.KK6oRYONe4sqtby845rYiKpRNZcv5cMsDuoNVpcxo) *(Non-Participating Jurisdiction Housing Handbook) Section 4.B. page 24)*

### Audit Objectives and Control Testing

**Audit Objectives**

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  For Direct Awards Only: For recipients using HHS’ Payment Management System (PMS) to draw Federal funds, the auditor should consider the following steps numbered 1 through 4 as they pertain to the cash reporting portion of the SF-425A, regardless of the source of the data included in the PMS reports. (During FY2016, HHS is completing the transition from pooled payment to use of subaccounts.) Although certain data is supplied by the Federal awarding agency (e.g., award authorization amounts) and certain amounts are provided by HHS’s Payment Management Services, the auditor should ensure that such amounts are in agreement with the recipient’s records and are otherwise accurate.  *(Source: 2024 OMB Compliance Supplement Part 3)*  1. Review applicable statutes, regulations, and the terms and conditions of the Federal award pertaining to reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency or pass-through entity, in the case of a subrecipient, instructions for completing the reports.  a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).  b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.  2. Select a sample of reports and perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:  a. Comparing current period reports to prior period reports.  b. Comparing anticipated results to the data included in the reports.  c. Comparing information obtained during the audit of the financial statements to the reports.  3. Select a sample of each of the following report types, and test for accuracy and completeness:  a. *Financial reports*  (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.  (2) Review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).  (3) Trace the amounts reported to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.  (4) For any discrepancies noted in SF-425 reports concerning cash status when the advance payment method is used, review subsequent SF-425 reports to ascertain if the discrepancies were appropriately resolved with the applicable payment system.  b. *Performance and special reports*  *Testing is only required for data identified by the federal agency as key line items in the Part 4 OMB Program Specific Requirements section above. If an agency does not identify key line items auditors are only required to test that the report was submitted in a timely manner. If the program is not included in Part 4 of the OMB Compliance Supplement, auditors will need to review the grant agreement to determine applicability.*  (1) Review the supporting records and ascertain if the applicable data elements were included in the sampled reports. Trace the reported data to records that accumulate and summarize data.  (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.  c. *Special reports for FFATA (Only applicable to State CDBG, State CDBG-CV, CDBG-DR, NSP, and RHP.)*  *This FACCR was written for funding passed through Ohio Department of Development. FFATA is not applicable to pass-through funding. If direct funding was received, contact CFAE.*  d. *For each type of report*  (1) When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.  (2) Test mathematical accuracy of reports and supporting worksheets.  4. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the applicable payment system, or pass-through entity in the case of a subrecipient. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N1. SPECIAL TESTS AND PROVISIONS – Wage Rate Requirements

### OMB Compliance Requirements

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

The Wage Rate Requirements apply to the construction and rehabilitation of residential property only if such property contains eight or more units. However, the requirements do not apply to volunteer work where the volunteer does not receive compensation, or is paid expenses, reasonable benefits, or a nominal fee for such services, and is not otherwise employed at any time in construction work (42 USC 5310).

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

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

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

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

*(Source: 2024 OMB Compliance Supplement, Part 4, DOT, Wage Rate Requirements Cross Cutting Section)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

### Audit Objectives and Control Testing

**Audit Objectives**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

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

*(Source: 2024 OMB Compliance Supplement, Part 4, DOT, Wage Rate Requirements Cross Cutting Section)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  Select a sample of construction contracts and subcontracts greater than $2,000 that are covered by the Wage Rate Requirements and perform the following procedures:  a. Verify that the required prevailing wage rate clauses were included in the contract or subcontract.  b. For each week in which work was performed under the contract or subcontract, verify that the contractor or subcontractor submitted the required certified payrolls.  (Note: Auditors are not expected to determine whether prevailing wage rates were paid.) |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N2. SPECIAL TESTS AND PROVISIONS – Environmental Oversight

### OMB Compliance Requirements

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

A state must assume the environmental oversight responsibilities and functions of HUD under Section 104(g) of the HCDA (42 USC 5304(g)). A state must:

a. require each of its units of general local government (subrecipients) to perform as a responsible federal official in carrying out all HUD environmental review requirements under 24 CFR Part 58, National Environmental Policy Act (NEPA), and other applicable authorities;

b. review and approve each subrecipient’s Request for Release of Funds (RROF) in accordance with the procedures provided under 24 CFR Part 58 Subpart H;

c. ensure that each subrecipient observes the statutory requirement that funds cannot be expended or obligated before the state approves its RROF and environmental certification, except as otherwise provided specifically in regulation or authorized by law; and

d. monitor and provide technical assistance to its subrecipients to ensure compliance with the environmental authorities (24 CFR Part 58) and the adequacy of environmental reviews.

A state can also manage a CDBG-DR and CDBG-MIT grant but must submit a Request for Release of Funds to HUD. A CDBG-DR and CDBG-MIT grantee is required to ensure every project/activity undergoes the appropriate level of environmental review and receives clearance and Authorization to Use Grant Funds (AUGF) prior to expending any funds. As a result, special circumstances apply to HUD environmental reviews for disaster recovery efforts, and an Environmental Review is required accordingly: (a) analysis of impacts of a project on the surrounding environment and vice versa; (b) demonstrates compliance with federal environmental laws and authorities; and (a) encourages public participation.

Additional CDBG-DR Environmental Review information and federal regulations can be found on HUD.gov at <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/environmental-review> and on the HUD Exchange at <https://www.hudexchange.info/programs/environmental-review/disaster-recovery-and-environment/#unified-federal-review>.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

*While this is a State requirement, all pass-through entities should assume oversight responsibilities whether it is a State or a local government.*

### Audit Objectives and Control Testing

**Audit Objectives**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

1. Determine whether a state carries out its environmental oversight responsibilities and functions.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  a. Examine the state’s program for monitoring and enforcing compliance with the environmental authorities.  b. Examine the state’s approval of the RROF and environmental certification and note dates.  c. Verify that the state obtained certifications and that the state’s records provide evidence that it obligated and expended the funds after the state’s approval of the RROF and environmental certification. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N3. SPECIAL TESTS AND PROVISIONS – Environmental Reviews

### OMB Compliance Requirements

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

Activities must have an environmental review unless they meet criteria specified in the regulations that would exclude them from RROF and environmental certification requirements.

a. CDBG-CV. HUD’s environmental review regulations in 24 CFR Part 58 include two provisions that may be relevant to environmental review procedures for activities to prevent, prepare for, and respond to coronavirus. The first is 24 CFR 58.34(a)(10), which provides an exemption for certain activities undertaken in response to a national or locally declared public health emergency. Except for the applicable requirements of 24 CFR 58.6, a responsible entity does not have to comply with the requirements of Part 58 or undertake any environmental review, consultation, or other action under NEPA and the other provisions of law or authorities cited in 24 CFR 58.5 for exempt activities or projects consisting solely of exempt activities. Exempt activities include assistance for temporary or permanent improvements that do not alter environmental conditions and are limited to protection, repair, or restoration activities necessary only to control or arrest the effects from imminent threats to public safety.

The second is a streamlined public notice and comment period in the regulation at 24 CFR 58.33, which may apply in some cases for emergency activities undertaken to prevent, prepare for, and respond to coronavirus. The application of these two provisions following a presidentially-declared or locally-declared public health emergency is discussed in CPD Notice 20-07, Guidance on conducting environmental review pursuant to 24 Part 58 for activities undertaken in response to the public health emergency as a result of COVID-19 (August 6, 2020) posted at <https://www.hud.gov/sites/dfiles/OCHCO/documents/2020-07cpdn.pdf>.

b. NSP (NSP1 and NSP3). A state that carries out NSP activities directly are considered recipients and must assume environmental review responsibilities for the state’s activities and those of any nongovernmental entity that participates in the project. A state that carries out activities directly must submit the RROF and the certifications to HUD for approval (24 CFR 58.4(b)(1), 58.34, and 58.35).

c. RHP. For RHP activities carried out directly by the state, the state must submit the certification and RROF to HUD for approval.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

**Environmental Review Procedures**

Effective July 1, 2017, CSD grantees may no longer make a determination of “Continued Relevance” to fulfill the environmental responsibilities outlined at 24 CFR Part 58 (Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities). Instead, for the purposes of environmental review, CSD grantees will classify activities as Exempt, Categorical Exclusions, or Environmental Assessments, according to the parameters described at §58.34, §58.35, and §58.36.

Background

Former CSD policy outlined procedures that enabled grantees to use a previously conducted environmental review to fulfill environmental responsibilities for phased and multi-year activities and supplemental assistance. The streamlined process, formerly known as “Continued Relevance,” provided a method for grantees to document compliance with environmental review requirements and obtain ROF documentation for previously reviewed activities. The current policy, OCD 17-03, still allows grantees to use previously conducted environmental review records but aligns the process with the established classifications and procedures in 24 CFR Part 58.

Procedures for circumstances under which “Continued Relevance” was formerly used

I. Supplemental assistance for a single-year project. In accordance with 24 CFR 58.35(b)(7), supplemental assistance from an CSD grant program to a project for which CSD previously issued a ROF may be classified as a Categorical Exclusion Not Subject to Section 58.5 (CENST), if the assistance is provided by the same responsible entity that conducted the environmental review on the original project and the scope of work and environmental conditions have not changed. Otherwise, the responsible entity must complete a new environmental review, classified at the appropriate level of review according to the scope of work for the activity.

II. Phased or multi-year project. Grantees must structure an environmental review record (ERR) for a phased or multi-year project to address the aggregated scope of the component activities. A grantee may apply the original ERR to subsequent phases of work for five years (from the date of the original ROF) if the grantee re-evaluates the original findings, updates the ERR as necessary, and documents that the conclusions are still valid. While the original ERR may be incorporated into the environmental review process for subsequent phases of work, grantees must still classify each phase according to the criteria outlined at §58.34, §58.35, and §58.36 (i.e. Exempt, Categorical Exclusions, or Environmental Assessments), publish applicable public notices, and submit the appropriate Certification and/or Request for Release of Funds to CSD.

III. Tiered Reviews. A grantee may re-use a Tier 1 ERR constructed in accordance with §58.15 for five years (from the date of the original ROF) if the grantee re-evaluates the original findings, updates the ERR as necessary, and documents that the conclusions are still valid. While the original ERR may be incorporated into the environmental review process for subsequent funding cycles, grantees must still classify activities according to the criteria outlined at §58.35 and §58.36 (i.e. Categorical Exclusions or Environmental Assessments), publish applicable public notices, submit the appropriate Certification and/or Request for Release of Funds to CSD, and complete site-specific Tier 2 reviews.

*(Source: ODOD OCD Program Policy Notice* [*OCD 17-03*](https://development.my.salesforce.com/sfc/p/#d0000000etTh/a/t0000000Q1uF/8PHofQ0Rz4jAMW26mO__j03WOA8NMSrnh6jD6_Hfiy4) *- Environmental Review Procedures for Multi-Year Activities and Supplemental Assistance)*

### Audit Objectives and Control Testing

**Audit Objectives**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

1. Determine whether the state conducted required environmental reviews and obtained required HUD approvals.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  a. Verify that the state obtained environmental review certifications from the subrecipient and that the state records provide evidence that the environmental reviews were made.  b. For any project where an environmental review was not performed, ascertain that the State has a written determination was made that the review was not required.  c. Ascertain that documentation exists that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR 58.34 and 58.35.  d. Verify that states obtained HUD approvals of RROFs and environmental certifications for state activities.  e. Verify that for state activities funds were obligated and expended after HUD approval of state RROFs and environmental certifications. Some CDBG-DR grantees may use the environmental review for projects that are also funded with FEMA. See Federal Register notices. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N4. SPECIAL TESTS AND PROVISIONS – Citizen Participation

### OMB Compliance Requirements

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

Prior to the submission to HUD for its annual grant, a grantee must certify to HUD that it has met the citizen participation requirements for grantees in 24 CFR 91.115 and 570.486 for local governments, as applicable. The primary goal of citizen participation is to provide residents—especially low- and moderate-income (LMI) residents of the community where CDBG-funded activities will take place—the opportunity to actively participate in the planning, implementation, and assessment of the programs and projects.

*a.* *CDBG-CV*. HUD issued two waivers to modify citizen participation requirements for consolidated plan substantial amendments for CDBG, ESG, HOME, HTF, and HOPWA. The first provided for a minimum of five days for public comments. The second allowed grantees to determine what constitutes reasonable notice and opportunity to comment, given their circumstances, for the 2020 program year. For as long as national or local health authorities recommend social distancing and limiting public gatherings for public health reasons, states, local governments and eligible subrecipients receiving CDBG, may hold virtual hearings in lieu of in person public hearings to fulfill public hearing requirements. (Section III.B.4.(a)(iii) of the [CDBG-CV Notice](https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf))

Section III.B.4.(a) of the CDBG-CV Notice applies to all fiscal year 2019 and 2020 annual formula CDBG grants, regardless of the use of funds. This section of the CDBG-CV Notice describes the program flexibilities provided by the CARES Act related to expedited citizen participation and virtual hearings. Where this section refers to CDBG-CV funds, it applies equally to fiscal year 2019 and 2020 CDBG grants.

*b.* *CDBG-DR and CDBG-MIT*. To permit a more streamlined process and ensure CDBG-DR grants are awarded in a timely manner, HUD waives provisions of 42 USC 5304(a)(2) and (3), 42 USC 12707, 24 CFR 570.486, 24 CFR 1003.604, 24 CFR 91.105(b) through (d), and 24 CFR 91.115(b) through (d), with respect to citizen participation requirements, and replaces the provisions with alternative requirements.

For CDBG-DR awards before 2017 disasters, the streamlined requirements require CDBG-DR grantees to publish its action plan for no less than 14 calendar days. For CDBG-DR awards for 2017 disasters and beyond, the streamlined requirements require CDBG-DR grantees provide a reasonable opportunity (at least 30 days) for citizen comment. The grantee must follow a detailed citizen participation plan that satisfies the requirements of 24 CFR 91.115 or 91.105 (except as provided for in notices providing waivers and alternative requirements). Each local government receiving assistance from a state grantee must follow a detailed citizen participation plan that satisfies the requirements of 24 CFR 570.486 (except as provided for in notices providing waivers and alternative requirements). Additionally, CDBG-DR awards subject to HUD’s Consolidated Notice (2020, 2021, and 2022) must also include public hearings on the proposed CDBG-DR action plan.

For CDBG-MIT grantees, HUD also waives 42 USC 5304(a)(2) and (3), 42 USC 12707, 24 CFR 570.486, 24 § 91.105(b) and (c), and 24 CFR 91.115(b) and (c), with respect to citizen participation requirements. The revised requirements mandate public hearings (the number of which is based upon the amount of a grantee’s CDBG–MIT allocation) across the HUD-identified MID areas and require the grantee to provide a reasonable opportunity (at least 45 days) for citizen comment and ongoing citizen access to information about the use of grant funds.

While the above waivers and alternative requirements reflect the most recent CDBG- DR citizen participation requirements for grantees subject to the Consolidated Notice and the long-standing CDBG-MIT requirements at 84 FR 45852 of the Main CDBG- MIT Notice published on August 30, 2019, auditors should review the Federal Register notices for additional details concerning each grantee’s applicable citizen participation requirements at <https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations>.

*c. NSP (NSP1 and NSP3)*

HERA provided for supersession of the citizen participation requirement to expedite the distribution of NSP grant funds and to provide for expedited citizen participation. The provisions of 24 CFR 570.485 and 570.486 with respect to following the citizen participation plan are waived to allow the jurisdiction to provide no fewer than 15 calendar days for citizen comment, rather than 30 days, for its initial NSP submission (Section II.B.4 of the [NSP Notice](https://www.govinfo.gov/content/pkg/FR-2008-10-06/pdf/E8-23476.pdf) and of the [NSP3 Notice](https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf)).

*d. RHP*

Section II.H. of the RHP Program Notice provides an overview of the grant process and RHP Action Plan requirements. The grantee develops the proposed RHP Action Plan and publishes it in accordance with the grantee’s adopted citizen participation plan it has established in accordance with 24 CFR 91.105 (District of Columbia) or 24 CFR 91.115 (states) and the RHP Program Notice.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

**Ohio Department of Development**

**Citizen Participation Guidance**

Citizen participation requirements for Ohio’s Community Development Block Grant (CDBG) Community Development Program are designed to provide local citizens with an opportunity to participate in the planning, implementation and assessment of the community’s CDBG program. Two public hearings are required, the first one at the initial stage of application preparation and the second one after the application is developed but prior to submission to the Community Services Division through OCEAN.

The purpose of the citizen participation process is to ensure that the CDBG program addresses the needs of those whom it is primarily intended to benefit. Failure to seek and consider input is a violation of program regulations and can result in citizen complaints and charges that national program objectives are not being met.

Each grantee must adopt a citizen participation plan, which at a minimum:

• Provides for and encourages citizen participation, with particular emphasis on participation by persons of low and moderate income who are residents of slum and blight areas and of areas in which section 106 funds are proposed to be used, and in the case of a grantee described in section 106 (a), provides for participation of residents in low- and moderate-income neighborhoods as defined by the local jurisdiction;

• Provides citizens with reasonable and timely access to local meetings, information and records relating to the grantee’s proposed use of funds, as required by regulations, and relating to the actual funds under this title;

• Provides for technical assistance to groups representing persons of low and moderate income that request such assistance in developing proposals with the level and type of assistance to be determined by the grantee;

• Provides for public hearings to obtain citizen views and to respond to proposals and questions at all stages of the community development programs, including at least the development of needs, the review of proposed activities, and review of program performance, which hearings shall be held after adequate notice, at times and locations convenient to potential or actual beneficiaries, and with accommodation for the handicapped;

• Provides for a timely written answer to written complaints and grievances, within 15 working days where practicable; and

• Identifies how the needs of non-English speaking residents will be met in the case of public hearing where significant number of non-English speaking residents can be reasonably expected to participate.

If the locality already has a written citizen participation plan, it is recommended that the existing procedure be maintained and updated as needed. Counties with acquired cities must fulfill Citizen Participation requirements on behalf of those jurisdictions.

Under the Community Development Allocation Program, an eligible county or city receives a funding allocation which is distributed to projects within the jurisdictions. The Allocation Program, as part of any application process and grant administration, is required to:

• Formally send written notice of the availability of funds and date of the public hearing to public officials from cities, village and townships within its jurisdictional limits, before submitting a funding application to the state.

• Consider the needs of cities, villages and townships in preparing applications under the program.

• Formally solicit and consider funding requests from cities, village and townships.

• Assume full responsibility for direct administration of the program, and compliance with all applicable Federal and State laws.

• A CSD grantee may not act as a pass-through entity unless specifically designated by CSD. Grant administrators that are not grantee employees have a contractor relationship with CSD grantees.

• Procure contracts necessary for the design, implementation and administration of the program, according to CDBG standards and guidelines, as well as OCD Policy Notice 15-02.

• Retain all program records, according to CDBG and State of Ohio guidelines.

The minimum citizen participation public hearing for the Community Development Program includes:

• Public Hearing #1 must be held prior to the development of the application. Adequate notice of this public hearing must be made seven (7) days in advance following the guidance provided in OCD Policy Notice 23-02.

• Public Hearing #2 must be held after the application is developed but prior to its submission to the Community Services Division. Adequate notice of this public hearing must include a summary of the proposed activities to be undertaken and be published seven (7) days in advance following the guidance provided in OCD Policy Notice 23-02.

• Minutes from both public hearings must be maintained in the grantee’s citizen participation file. The minutes must be accompanied by a list of attendees at each hearing.

• Any written citizen comments or complaints provided at the public hearings or during the implementation of the program must be maintained in the grantee’s citizen participation file.

• Citizen complaints regarding the planned or actual implementation of the program must be responded to promptly in writing within 15 days. At the time the response is made, a copy of the complaint and the response must be sent to the Community Services Division.

• Program documents must be made available for public inspection and copying during regular business hours at the offices of the grantee, upon written or oral request. Available documents must, at a minimum, include:

* Program regulations;
* Applications;
* Status reports and performance reports; and
* Activity guidelines such as housing rehabilitation guidelines

• Bilingual opportunities should be provided where applicable. If the community has a population segment with a primary language other than English, bilingual notices and provision for translations of program documents should be provided.

Since the two public hearings are the primary citizen participation mechanisms required of all applicants, it is important that all of the necessary program information be conveyed at each hearing and the minutes of each hearing, including all citizen comments, be maintained in the appropriate CDBG file.

Information to be conveyed and program areas to be discussed at **Public Hearing #1** includes the following items:

• National and state program objectives;

• Estimated amount of funds available to the community;

• Range of eligible activities;

• Performance of the locality in past CDBG programs, if applicable;

• A summary of other program requirements;

• Date of Public Hearing #2;

• Date Application is due to the Community Services Division in OCEAN; and

• Citizen views and comments.

Between Public Hearing #1 and Public Hearing #2, the locality may wish to formally solicit block grant proposals from organizations, individuals, other governmental units or other sub-recipients.

Seven (7) or more working days after the first public hearing, Public Hearing #2 is required in order to give citizens an opportunity to review and comment on the community’s proposed Application prior to its submission.

The format for Public Hearing #2 must include the following information and areas for discussion:

• A presentation by a representative(s) of the community on the city’s or county’s proposed CDBG program, including the activity or activities to be undertaken, the amount of CDBG and other funds allocated for each activity, the objective of each activity, the timetable for starting through completion of each activity, and what national objective(s) each activity will meet.

• The grantee should have available for citizens a written summary of the proposed CDBG program. Note: copies of the newspaper notice that advertised the second public hearing, which includes a summary of the community’s proposed CDBG program, should provide the necessary information.

• Citizen views and comments.

Citizen participation/public hearing is also part of the program amendment process. If the Community Services Division determines that a program change constitutes an amendment, one public hearing will be required at that time. The primary purpose of an Amendment Public Hearing is to provide citizens with an opportunity to review and comment on a “substantial change” in a grantee’s CDBG program. The format for Amendment Public Hearing should be similar to Public Hearing #2 outlined above.

*(Source: ODOD OCD* [*Citizen Participation Guidance*](https://development.my.site.com/OCDTA/s/article/23-02-Citizen-Participation-Requirements)*)*

### Audit Objectives and Control Testing

**Audit Objectives**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

1. Determine whether the CDBG grantee has developed and implemented a citizen participation plan.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  a. Verify that the grantee has a citizen participation plan.  b. Review the plan to verify that it provides for public hearings, publication, public comment, access to records, and consideration of comments.  c. Examine the grantee’s records for evidence that the elements of the citizen’s participation plan were followed as the grantee certified.  d. HUD Compliance Reviews. Auditors may consult HUD’s Community Planning and Development Monitoring Handbook for the specific compliance review exhibits that HUD uses to determine compliance. The CDBG-DR monitoring exhibits can be found at <https://www.hud.gov/program_offices/administration/hudclips/handbooks/cpd/6509.2>. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N5. SPECIAL TESTS AND PROVISIONS – Rehabilitation Using NSP Funds

### OMB Compliance Requirements

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

Any NSP-assisted rehabilitation of a foreclosed-upon home or residential property shall be completed to the extent necessary to comply with applicable laws, codes and other requirements relating to housing safety, quality, or habitability, in order to sell, rent or redevelopment such homes and properties. To comply with this provision, a grantee must describe or reference in its NSP action plan amendment what rehabilitation standards it will apply for NSP-assisted rehabilitation (Section 2301(d)(2) of HERA; Section II.I. of [NSP3 Notice](https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf), 75 FR 64333).

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

### Audit Objectives and Control Testing

**Audit Objectives**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

1. To determine whether the grantee ensures NSP rehabilitation work is properly completed.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  a. Review rehabilitation standards established for NSP work.  b. Verify through a review of documentation that the rehabilitation work is inspected upon completion to ensure that it is carried out in accordance with applicable rehabilitation standards. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## N6. SPECIAL TESTS AND PROVISIONS – Section 3

### OMB Compliance Requirements

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

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

Section 3 is a provision of the Housing and Urban and Development Act of 1968 and is found at 12 USC 1701u. It requires that recipients of certain HUD financial assistance, to the greatest extent possible, provide training, employment, contracting and other economic opportunities to low- and very low-income persons, especially recipients of government assistance for housing, and to businesses that provide economic opportunities to low- and very low-income persons. Grantees must establish and maintain (or ensure that a subrecipient, contractor, or subcontractor maintains) documentation to demonstrate that workers on Section 3 projects meet the definition of a Section 3 worker or Targeted Section 3 worker, at the time of hire or the first reporting period. This includes requiring written reports from developers or contractors summarizing the totals for labor hours, including Section 3 worker and Targeted Section 3 worker labor hours, and documentation from employees or employers certifying that the employee met the requirements to receive Section 3 worker status. Any information that a grantee enters in IDIS or DRGR must have supporting documentation demonstrating the accuracy of the data. (24 CFR part 75)

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

### Additional Program Specific Information

**Add program specific requirements from:**

* **The individual grant application, agreement, and policies, and**
* **Federal agency guidance not included in the compliance supplement (such as federal agency grant manuals, references to CFR, etc.)**

**Be sure to indicate the source of your information. If no additional requirements are noted, indicate as such.**

### Audit Objectives and Control Testing

**Audit Objectives**

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

*(Source: 2024 OMB Compliance Supplement Part 3)*

1. Determine whether the Grantee is following its own Section 3 policy and procedures by collecting and maintaining adequate records demonstrating Section 3 compliance.

*(Source: 2024 OMB Compliance Supplement, Part 4, HUD, #14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii)*

**Control Documentation and Testing**

|  |
| --- |
| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. 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 errors)*:  **Person(s) responsible for performing the control procedure** *(Title)*:  **Description of evidence documenting the control was applied** *(i.e. sampling unit)*: |

### Suggested Substantive Audit Procedures – Compliance

|  |
| --- |
| Consider the results of control testing above 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.  *(Source: 2024 OMB Compliance Supplement Part 3)*  a. Review the grantee’s Section 3 policy and procedures.  b. Review a sample of grant agreements and contracts for housing rehabilitation, housing construction, or other public construction projects, to determine if the grantee notified subrecipients and contractors of requirements to maintain or ensure that a subrecipient, contractor, or subcontractor maintains adequate records demonstrating Section 3 compliance. |

### Audit Implications Summary

|  |
| --- |
| *Consider the adequacy of the system and controls, and the effect on sample size, significant deficiencies/material weaknesses, material non-compliance and management letter comments.*  *Auditors should review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*   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:** 5. **Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** |

## Program Testing Conclusion

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

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

Per paragraph 13.39 of the AICPA *Single Audit* Guide**[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 reportedas 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_CFR_Part_200.pdf) lists block grants and other programs excluded from the requirements of specified portions of 2 CFR Part 200.

*Auditors must review the Federal agency adoption of the Uniform Guidance (2 CFR Part 200) and nonprocurement suspension and debarment requirements (2 CFR Part 180) prior to issuing noncompliance citations to verify the Federal agency requirements. Auditors should also review this* [*link*](Agency_Adoption_of_the_UG_and_Example_Citations.pdf) *for a discussion on how to cite non-compliance exceptions based on agency adoption of the UG.*

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

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

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

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

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