**Federal Awards Compliance Audit Guidance and Testing**

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| **NAME OF CLIENT:** |  |
| **YEAR ENDED:** | 2021 |

|  |  |
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| **FEDERAL AWARD NAME:** | Federal Transit Cluster |
| **AL#:** | #20.500 Federal Transit – Capital Investment Grants (Fixed Guideway Capital Investment Grants) #20.507 Federal Transit – Formula Grants (Urbanized Area Formula Program)#20.525 State of Good Repair Grants Program#20.526 Bus and Bus Facilities Formula & Discretionary Programs (Bus Program)  |

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

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

# Important Information (please read)

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

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

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

**Note: During 2020, The Office of Management and Budget (OMB) revised sections of the Uniform Guidance (UG).  These revisions to the UG were effective for funds awarded on or after November 12, 2020 (except for the amendments to §§ 200.216 and 200.340, which were effective on August 13, 2020).  The** [**eCFR**](https://www.ecfr.gov/cgi-bin/ECFR?page=browse) **has been updated to reflect these revisions, but guidance prior to the date of the revision is still accessible through the eCFR by selecting a date prior to 11/12/20 using the “Browse/Search Previous” button.**

**NAVIGATION PANE**

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

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# AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS

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

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

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

*(Source: AOS CFAE)*

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# Introduction: Materiality by Compliance Requirement Matrix

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

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

**(1)** Taken form Part 2, Matrix of Compliance Requirements, of the [OMB Compliance Supplement](https://www.whitehouse.gov/wp-content/uploads/2021/08/OMB-2021-Compliance-Supplement_Final_V2.pdf). When Part 2 of the Compliance Supplement indicates that a type of compliance requirement is not applicable, the remaining assessments for the compliance requirement are not applicable.

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

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

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

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

**(6)** CFAE included the typical monetary vs. nonmonetary determinations for each compliance requirement in this program. However, auditors should tailor these assessments as appropriate based on the facts and circumstances of their entity’s operations. The AICPA Single Audit Guide 10.56 states the auditor's tests of compliance with compliance requirements may disclose instances of noncompliance. The Uniform Guidance refers to these instances of noncompliance, among other matters, as “audit findings.” Such findings may be of a monetary nature and involve questioned costs or may be nonmonetary and not result in questioned costs. AU-C 935.13 & .A7 require auditors to establish and document two materiality levels: (1) a materiality level for the program as a whole. The column above documents quantitative materiality at the COMPLIANCE REQUIREMENT LEVEL for each major program; and (2) a second materiality level for the each of the applicable 12 compliance requirement listed in Appendix XI to Part 200.

*Note:*

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

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

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

*(Source: AOS CFAE)*

[***Performing Tests to Evaluate the Effectiveness of Controls throughout this FACCR***](Performing%20Tests%20to%20Evaluate%20the%20Effectiveness%20of%20Controls%20throughout%20this%20FACCR.pdf)

[***Improper Payments***](Improper%20Payments.pdf)

# Part I – OMB Compliance Supplement Information

### I. Program Objectives

**Note**: Program 20.507 is considered a “higher risk” program for 2021, pursuant to 2 CFR section 200.519(c)(2). Refer to the “Programs with Higher Risk Designation” section of Part 8, Appendix IV, Internal Reference Tables, for a discussion of the impact of the “higher risk” designation on the major program determination process.

*Urbanized Area Formula Program (Section 5307)*

The objective of the Urbanized Area Formula Program (5307 program) is to assist in financing the planning, acquisition, construction, preventive maintenance, and improvement of facilities and equipment in public transportation services. Operating expenses are also eligible under the 5307 program in urbanized areas with populations of less than 200,000 and, under some limited exceptions, to some urbanized areas with population of 200,000 and above.

*Fixed Guideway Capital Investment Grants (Section 5309)*

The objective of the Fixed Guideway Capital Investment Grants program (5309 program) is to provide funds for construction of new or extended fixed guideway systems, corridor-based bus rapid transit systems, and core capacity improvement projects that increase capacity by at least 10 percent in existing fixed guideway corridors that are at capacity today or will be in five years. In addition, the Pilot Program for Transit-Oriented Development (TOD) Planning provides funding for corridor-level comprehensive planning activities conducted in conjunction with new fixed guideway or core capacity improvement projects. The Expedited Project Delivery (EPD) Pilot Program aims to expedite funding of new fixed guideway capital projects, small starts projects, or core capacity improvement projects and to encourage innovative partnerships and funding mechanisms.

*State of Good Repair Grants Program (Section 5337)*

The objective of the State of Good Repair Grants program (5337 program) is to provide financial assistance for replacement, maintenance, and rehabilitation projects for existing fixed guideway (including rail, bus rapid transit, and passenger ferries) and high intensity motorbus (buses operating in high-occupancy vehicle (HOV) lanes) systems to maintain public transportation systems in a state of good repair so that they operate safely, efficiently, reliably, and sustainably and offer balanced transportation choices that help to improve mobility, reduce congestion, and encourage economic development.

*Buses & Bus Facilities Program (Section 5339)*

The objective of the Buses and Bus Facilities program (5339 program) is to provide financial assistance to replace, rehabilitate, and purchase buses and related equipment as well as construct bus-related facilities through both formula and competitive selection procedures. The Buses and Bus Facilities program includes three tiers. The 5339(a) formula tier provides funds based on population, ridership, and vehicle mileage. The 5339(b) portion of the bus program is dedicated to a discretionary competition for buses, bus facilities and bus related equipment. The 5339(c) portion of the bus program is dedicated to the Low or No Emissions discretionary competitions for low or no emissions buses, bus facilities, and bus related equipment.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### II. Program Procedures

Federal transit law under Chapter 53 of Title 49, US Code, authorizes the Urbanized Area Formula program (49 USC 5307, including the competitive Passenger Ferry program), the Capital Investment Grants program (49 USC 5309), the Grants for Buses and Bus Facilities program (49 USC 5339, including the Grants for Buses and Bus Facilities formula program (5339(a)), the competitive buses and bus facilities program (5339(b)), and the Low or No Emission Grants program (5339(c))), and the State of Good Repair Grants program (49 USC 5337). The pilot program for TOD Planning is authorized by Section 20005(b) of the Moving Ahead for Progress in the 21st Century Act (MAP–21; Pub. L. 112–141, July 6, 2012). The EPD Pilot Program is authorized by Section 3005(b) of the Fixing America’s Surface Transportation Act (FAST Act; Pub. L. No. 114-94, December 4, 2015).

Grants are awarded to public agencies on approval of applications for specific programs or projects submitted to the Federal Transit Administration (FTA). FTA monitors the progress of those projects through on-site inspections, telephone contacts, correspondence, quarterly or annual progress and financial status reports, and, where applicable, Triennial Reviews.

FTA is required to perform reviews and evaluations of 49 USC 5307 grant activities at least every three years. The most recent FTA Triennial Review Workshop Workbook provides guidance to FTA staff and recipients on the conduct of triennial reviews and is available at <https://www.transit.dot.gov/fy20-comprehensive-review-guide>. These reviews are conducted with specific reference to compliance with statutory and administrative requirements and consistency of program activities with (1) the approved program of projects and (2) the planning process required under 49 USC 5303. Copies of these triennial reviews are available from the regional offices. Regional office addresses and telephone numbers are available on the FTA website listed below.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### III. Source of Governing Requirements

The programs in this cluster are authorized by 49 USC 5307, 5309, 5337, and 5339, as well as Section 20005(b) of MAP-21 and Section 3005(b) of FAST. Program regulations are at 49 CFR parts 601 through 665.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### IV. Other Information

Additional information is available on the FTA website at <http://www.fta.dot.gov/>.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

# Part II – Pass through Agency and Grant Specific Information

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

### Program Overview

### Testing Considerations

### Reporting

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

* Examples SEFA and Footnote shells
* Additional SEFA Guidance in the “Single Audit SEFA 2021 Completeness Guide”

*(Source: CFAE)*

# PART III – APPLICABLE COMPLIANCE REQUIREMENTS

## A. ACTIVITIES ALLOWED OR UNALLOWED

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

### OMB Compliance Requirements

**Important Note:** For a cost to be allowable, it must (1) be for a purpose the specific award permits and (2) fall within [2 CFR 200 subpart E](2CFR200_Subpart%20E.pdf) Cost Principles. These two criteria are roughly analogous to classifying a cost by both program/function and object. That is, the grant award generally prescribes the allowable program/function while 2 CFR 200 subpart E prescribes allowable object cost categories and restrictions that may apply to certain object codes of expenditures.

For example, could a government use an imaginary Homeland Security grant to pay OP&F pension costs for its police force? To determine this, the client (and we) would look to the grant agreement to see if police activities (security of persons and property function cost classification) met the program objectives. Then, the auditor would look to Subpart E (provisions for selected items of cost [§ 200.420-200.476](2CFR200.420_thru_200.476.pdf)) to determine if pension costs (an object cost classification) are permissible. (200.431(g) states they are allowable, with certain provisions, so we would need to determine if the auditee met the provisions.) Both the client and we should look at 2 CFR 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 200 and some agencies have been granted exceptions to provisions within 2 CFR 200.

*(Source: AOS CFAE)*

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

**Source of Governing Requirements**

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

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

* HHS, DOL, HUD, DOT, and EPA have not made any adjustments or exceptions that directly impact references within this compliance requirement.

**Part 4 OMB Program Specific Requirements**

1. *Activities Allowed*
	1. Generally, under all programs, unless otherwise specified below, capital activities, as defined in 49 USC 5302(3), are eligible activities, including preventive maintenance and certain expenses related to crime prevention and security (49 USC 5307(a), 5309(b), 5337(b), and 5339(a)).
	2. Under the 5307 program, for projects awarded before October 1, 2012, operating expenses related to the conduct of emergency response drills with public transportation agencies and local first-response agencies, and security training for public transportation employees are eligible capital expenses (49 USC 5302(a)(1)(J)).
	3. Under the 5307 program, operating assistance for all urbanized areas under 200,000 population, and certain larger urbanized areas under limited exceptions, and planning for all urbanized areas (49 USC 5307(a)(2)). Additional flexibility for reimbursing operating expenses for all 5307 recipients has been extended in response to the COVID-19 public health emergency. FTA allowed all recipients of 5307 formula funds to use apportioned funds for operating expenses related to the emergency, beginning January 20, 2020, regardless of the size of the transit system or urbanized area. Additional detail and Frequently Asked Questions available at:
		* FTA Formula Funding Under Emergency Relief Program <https://www.transit.dot.gov/frequently-asked-questions-fta-grantees-regarding-coronavirus-disease-2019-covid-19>
		* CARES, CRRSAA & ER Funding Requirements <https://www.transit.dot.gov/frequently-asked-questions-fta-grantees-regarding-coronavirus-disease-2019-covid-19#CARES>
	4. Under the 5307 program, human resources and workforce development activities, including training, and training provided at the National Transit Institute or through a state-contracted training provider (49 USC 5314 (b) and (c)).
	5. Under the 5337 program, the only capital projects authorized are projects that implement a transit asset management plan and projects that maintain, rehabilitate, and replace transit assets for high intensity fixed guideway and motorbus systems in a state of good repair (49 USC 5337(b)).
	6. Under the 5339 program, the only capital projects authorized are bus, bus facilities, and bus-related equipment projects (49 USC 5339(a)).
	7. Under the 5339 program, workforce development (49 USC 5314(b)).
	8. Under the 5309 program, for projects awarded before October 1, 2012, the only capital projects authorized are those for

(1) bus and bus facilities;

(2) new fixed guideways, including Small Starts;

(3) fixed guideway modernization; or

(4) corridor improvements (49 USC 5309(b)(1) through (b)(4)).

* 1. Under the 5309 program, for projects awarded on or after October 1, 2012, the only capital projects authorized are those for

(1) new or extended fixed guideway capital projects;

(2) corridor-based bus rapid transit projects; or

(3) core capacity improvement projects (49 USC 5309(b)).

* 1. Under the Pilot Program for TOD Planning, only comprehensive planning associated with a new fixed guideway or core capacity improvement transit capital project as defined in federal public transportation law (49 USC 5309(a)) is allowable (Section 20005(b) of MAP-21).
	2. Under the EPD Pilot Program, only new or extended fixed guideway capital projects, small start projects, or core capacity improvement projects are eligible for funding that use a public-private partnership and will be operated and maintained by employees of an existing public transportation provider (Section 3005(b) of the FAST Act).
1. *Activities Unallowed*
	1. Under the 5309 and 5337 programs, the following:

(1) Mobility management;

(2) Operating expenses; and

(3) Alternatives analysis, including planning, with funds appropriated after fiscal year (FY) 2005 (49 USC 5309(b) and 5337).

* 1. Under the 5307 program, operating assistance in areas over 200,000, unless under certain limited exceptions (49 USC 5307(a)(2)).
	2. Under the 5339 program, preventive maintenance, and rail-related activities (49 USC 5339).

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### Additional Program Specific Information

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

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Activities_Allowed_or_Unallowed_Audit_Objectives.pdf)

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

### Suggested Audit Procedures – Compliance

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

### Audit Implications Summary

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

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

### Applicability of Cost Principles

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

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

*(Source: AOS CFAE)*

The cost principles in [2 CFR part 200, subpart E](2CFR200_Subpart%20E.PDF) (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 section 200.101](2CFR200.101.pdf), the cost principles requirements apply to all Federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in [2 CFR section 200.101(e)](2CFR200.101%28e%29.pdf) (see [Appendix I](2CFR200_APPENDIX_I.pdf) of this Supplement). Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from 2 CFR part 200, subpart E, but are subject to the requirements [45 CFR part 75, Appendix IX](45CFR75_Appendix_IX.pdf), the Department of Health and Human Services (HHS) implementation of 2 CFR part 200. The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal awarding agency or indirectly through a pass-through entity. For this purpose, Federal awards include cost-reimbursement contacts under the Federal Acquisition Regulation (FAR). The cost principles do not apply to Federal awards under which a non-Federal entity is not required to account to the Federal awarding agency or pass-through entity for actual costs incurred.

**Source of Governing Requirements**

The requirements for allowable costs/cost principles are contained in [2 CFR part 200, subpart E](2CFR200_Subpart%20E.PDF), 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](2CFR200_Appendix_III_thru_VII.pdf) 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: 2021 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

* HUD, DOT, and EPA have not made any adjustments or exceptions that directly impact references within this compliance requirement.

**Basic Guidelines**

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

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under the principles in [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF).

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

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

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

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

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

7. Be adequately documented.

**Selected Items of Cost**

*Note that the 2 CFR was revised on August 12, 2020 and the revisions are effective November 13, 2020. Auditors are reminded to check the proper and applicable versions of 2 CFR 200 depending on the occurrence date of the transactions reviewed. The August revisions are reflected in all references in this section.*

[2 CFR sections 200.420 through 200.476](2CFR200.420_thru_200.476.pdf) 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 sections 200.402 through 200.411](2CFR200.402_thru_411.pdf).

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

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

No program specific requirements noted in OMB Compliance Supplement for Allowable Costs/Cost Principles.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

**Written Procedure Requirements:**

[2 CFR 200.302](2CFR200.302.pdf)(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](2CFR200.430.pdf) 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](2CFR200.431.pdf) requires established written leave policies if the entity intends to pay fringe benefits.

[2 CFR 200.464](2CFR200.464.pdf)(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](2CFR200.475.pdf) requires reimbursement and/or charges to be consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies.

*(Source: CFAE/eCFR)*

### Additional Program Specific Information

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

### Indirect Cost Rate

Except for those non-Federal entities described in [2 CFR part 200, Appendix VII, paragraph D.1.b](2CFR200_Appendix_VII_Para_D%281%29%28b%29.pdf), if a non-Federal entity has never received a negotiated indirect cost rate, it may elect to charge a de minimis rate of 10 percent of modified total direct costs (MTDC). Effective on November 12, 2020, any non-federal entity can use the de minimus rate. Such a rate may be used indefinitely or until the non-Federal entity chooses to negotiate a rate, which the non-Federal entity may do at any time. If a non-Federal entity chooses to use the de minimis rate, that rate must be used consistently for all of its Federal awards. Also, as described in [2 CFR section 200.403](2CFR200.403.pdf), costs must be consistently charged as either indirect or direct, but may not be double charged or inconsistently charged as both. In accordance with [2 CFR section 200.400(g)](2CFR200.400%28g%29.pdf), a non-Federal entity may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the award. A non-federal entity can always choose to charge the federal award less than the negotiated rates or the de minimis rate.

*(Source: 2021 OMB Compliance Supplement Part 3)*

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

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Allowable%20Costs%20audit%20objectives_deminimis%20indirect%20cost%20rate.pdf)

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

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| The following suggested audit procedures apply to any non-Federal entity using a de minimis indirect cost rate, whether as a recipient or a subrecipient. None of the procedures related to indirect costs in the sections organized by type of non-Federal entity apply when a de minimis rate is used. **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Determine that the non-Federal entity has not previously claimed indirect costs on the basis of a negotiated rate. Auditors are required to test only for the three fiscal years immediately prior to the current audit period.2. Test a sample of transactions for conformance with [2 CFR section 200.414(f)](2CFR200.414%28f%29.pdf).a Select a sample of claims for reimbursement of indirect costs and verify that the de minimis rate was used consistently, the rate was applied to the appropriate base, and the amounts claimed were the product of applying the rate to a modified total direct costs base. b Verify that the costs included in the base are consistent with the costs that were included in the base year, i.e., verify that current year modified total direct costs do not include costs items that were treated as indirect costs in the base year. 3. For a non-Federal entity conducting a single function, which is predominately funded by Federal awards, determine whether use of the de minimis indirect cost rate resulted in the non-Federal entity double-charging or inconsistently charging costs as both direct and indirect. |

**2 CFR PART 200**

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

**Introduction**

[2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF), and [Appendices III-VII](2CFR200_Appendix_III_thru_VII.pdf) 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.

In addition the 2 CFR 200 was revised on August 13, 2020. Section 200.216, Prohibition on certain telecommunication and video surveillance services or equipment, is effective on August 13, while other revisions are effective November 12, 2020. Auditors are reminded to check the proper and applicable versions of 2 CFR 200 depending on the occurrence date of the transactions reviewed.

***Cognizant Agency for Indirect Costs***

[2 CFR part 200, Appendix V, paragraph F](2CFR200_Appendix_V_Para_F.pdf), 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 section 200.1\_Cognizant\_Agency](2CFR200.1_Cognizant_Agency.PDF).

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: 2021 OMB Compliance Supplement Part 3)*

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

The individual State/local government/Indian tribe departments or agencies (also known as “operating agencies”) are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF).

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](2CFR200_Appendix_VII_Para_B.pdf)).

*(Source: 2021 OMB Compliance Supplement Part 3)*

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Allowable%20Costs_DirectandIndirect_ComplianceReq_Auditobjectives.pdf)

**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](2CFR200.302.pdf)(b)(7), [2 CFR 200.430](2CFR200.430.pdf), [2 CFR 200.431](2CFR200.431.pdf), [2 CFR 200.464](2CFR200.464.pdf)(a)(2), and [2 CFR 200.475](2CFR200.475.pdf)*.*
* Document whether the non-Federal entity established written procedures consistent with the following requirements:
	+ 2 CFR 200.302(b)(7) for determining the allowability of costs in accordance with Subpart E-Cost Principles.
	+ 2 CFR 200.430 for allowability of compensation costs.
	+ 2 CFR 200.431 for written leave policies.
	+ 2 CFR 200.464(a)(2) for reimbursement of relocation costs.
	+ 2 CFR 200.475 for travel reimbursements.
* It is auditor judgment how to report instances where the entity either lacks having a written policy or their written policy is insufficient to meet the requirements of 2 CFR 200.302(b)(7), 2 CFR 200.430, 2 CFR 200.431, 2 CFR 200.464(a)(2), and 2 CFR 200.475.
	+ While auditors would normally use a written policy as the basis for the compliance control, there could be other key controls in place to ensure program compliance.
	+ The lack of a policy would be noncompliance, which could rise to the level of material noncompliance and even a control deficiency (SD / MW) if there were underlying internal control deficiencies.
		- If there are key controls in place operating effectively, AOS auditors would report the lack of the required UG policy as a management letter citation. However, in subsequent audits, evaluate if the noncompliance should be elevated if not adopted. Written policies aid in consistency and adherence to requirements strengthening internal control processes.

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| ***Direct Costs*** Test a sample of transactions for conformance with the following criteria contained in 2 CFR part 200, as applicable:1. If the auditor identifies unallowable direct costs, the auditor should be aware that “directly associated costs” might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.
2. Costs were approved by the Federal awarding agency, if required (see the above table (Selected Items of Cost, Exhibit 1) or [2 CFR section 200.407](2CFR200.407.pdf) 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](2CFR200_subpart%20E.PDF).e. Costs conformed to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the Federal award as to types or amount of cost items.f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the State/local government/Indian tribe department or agency.g. Costs were accorded consistent treatment. Costs were not assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.i. Costs were not used to meet the cost-sharing or matching requirements of another Federal program, except where authorized by Federal statute.j. Costs were adequately documented.***Indirect Costs***a. If the State/local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.b. *General Audit Procedures* – The following procedures apply to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.(1) Test a sample of transactions for conformance with:(a) The criteria contained in the “Basic Considerations” section of [2 CFR sections 200.402 through 200.411](2CFR200.402_thru_411.pdf).(b) The principles to establish allowability or unallowability of certain items of cost ([2 CFR sections 200.420 through 200.476](2CFR200.420_thru_200.476.pdf)).Note: While several selected items of cost are included in Exhibit 1 , one item to note is *Compensation - Personnel Services*, (formally referred to as Time and Effort/Semi Annual Certification). See [2 CFR 200.430](2CFR200.430.pdf). (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.c. *Special Audit Procedures for State, Local Government, and Indian Tribe ICRPs (see also the AOS discussion on* [*testing the ICRP*](Testing%20the%20ICRP%20discussion.pdf)*)*(1) Verify that the ICRP includes the required documentation in accordance with [2 CFR part 200, Appendix VII, paragraph D](2CFR200_Appendix_VII_Para_D.pdf).(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](2CFR200_subpart%20E.PDF):(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 section 200.430](2CFR200.430.pdf) 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. Where the auditee has documentation, the suggested general audit procedures under paragraph 3.b above should be performed to determine the appropriateness of the indirect cost charges to awards.(b) If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation. |

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

Most governmental entities provide services, such as accounting, purchasing, computer services, and fringe benefits, to operating agencies on a centralized basis. Since the Federal awards are performed within the individual operating agencies, there must be a process whereby these central service costs are identified and assigned to benefiting operating agency activities on a reasonable and consistent basis. The State/local government-wide central service cost allocation plan (CAP) provides that process. ([Refer to 2 CFR part 200, Appendix V](2CFR200_Appendix_V.pdf), for additional information and specific requirements.)

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

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

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

*(Source: 2021 OMB Compliance Supplement Part 3)*

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

[**See here for the OMB Compliance Supplement Audit Objectives and Compliance Requirements**](Allowable%20Costs_StateLocal_Govtwide_Centralservicecosts_ComplianceReq_Auditobjectives.pdf)

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. For local governments that are not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.b. *General Audit Procedures for State/Local Government-Wide Central Service CAPs* – The following procedures apply to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.(1) Test a sample of transactions for conformance with:(a) The criteria contained in the “Basic Considerations” section of [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF) (sections [200.402 through 200.411](2CFR200.402_thru_411.pdf)).(b) The principles to establish allowability or unallowability of certain items of cost [(2 CFR sections 200.420 through 476](2CFR200.420_thru_200.476.pdf)).(2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.c. *Special Audit Procedures for State/Local Government-Wide Central Service CAPs*(1) Verify that the central service CAP includes the required documentation in accordance with [2 CFR part 200 Appendix V, paragraph E](2CFR200_Appendix_V_Para_E.pdf).(2) *Testing of the State/Local Government-Wide Central Service CAPs – Allocated Section I Costs*(a) If new allocated central service costs were added, review the justification for including the item as Section I costs to ascertain if the costs are allowable (e.g., if costs benefit Federal awards).(b) Identify the central service costs that incurred a significant increase in actual costs from the prior year’s costs. Test a sample of transactions to verify the allowability of the costs.(c) Ascertain if the bases used to allocate costs are appropriate, i.e., costs are allocated in accordance with relative benefits received.(d) Ascertain if the proposed bases include all activities that benefit from the central service costs being allocated, including all users that receive the services. For example, the State-wide central service CAP should allocate costs to all benefiting State departments and agencies, and, where appropriate, non-State organizations, such as local government agencies.(e) Perform an analysis of the allocation bases by selecting agencies with significant Federal awards to determine if the percentage of costs allocated to these agencies has increased from the prior year. For those selected agencies with significant allocation percentage increases, ascertain if the data included in the bases are current and accurate. (f) Verify that carry-forward adjustments are properly computed in accordance with [2 CFR part 200, Appendix V, paragraph G.3](2CFR200_Appendix_V_Para_G%283%29.pdf). (3) *Testing of the State/Local Government-Wide Central Service CAPs – Billed Section II Costs*(a) For billed central service activities accounted for in separate funds (e.g., internal service funds), ascertain if: (i) Retained earnings/fund balances (including reserves) are computed in accordance with the cost principles;(ii) Working capital reserves are not excessive in amount (generally not greater than 60 calendar days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs, and debt principal costs); and(iii) Adjustments were made when there is a difference between the revenue generated by each billed service and the actual allowable costs.(b) Test to ensure that all users of services are billed in a consistent manner. For example, examine selected billings to determine if all users (including users outside the governmental unit) are charged the same rate for the same service.(c) Test that billing rates exclude unallowable costs, in accordance with the cost principles and Federal statutes.(d) Test, where billed central service activities are funded through general revenue appropriations, that the billing rates (or charges) were developed based on actual costs and were adjusted to eliminate profits.(e) For self-insurance and pension funds, ascertain if the fund contributions are appropriate for such activities as indicated in the current actuarial report.(f) Determine if refunds were made to the Federal Government for its share of funds transferred from the self-insurance reserve to other accounts, including imputed or earned interest from the date of the transfer. |

### Allowable Costs – State Public Assistance Agency Costs

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

[2 CFR part 200, Appendix VI, paragraph A](2CFR200_Appendix_VI_Para_A.pdf), states that, since the federally financed programs administered by State public assistance agencies are funded predominantly by HHS, HHS is responsible for the requirements for the development, documentation, submission, negotiation, and approval of public assistance CAPs. These requirements are specified in [45 CFR part 95, subpart E](45CFR95%20Subpart%20E.pdf).

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

*(Source: 2021 OMB Compliance Supplement Part 3)*

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

[**See here for the OMB Compliance Supplement Audit Objectives and Compliance Requirements**](Allowable%20Costs_State%20Public%20Assistance%20Agency%20Costs_OMB%20supplement.pdf)

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| This may be applicable to public assistance programs at the local levela. Since a significant amount of the costs in the public assistance CAP are allocated based on employee compensation reporting systems, it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.b. *General Audit Procedures* – The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards.(1) Test a sample of transactions for conformance with:(a) The criteria contained in the “Basic Considerations” section of 2 CFR part 200 ([sections 200.402 through 200.411](2CFR200.402_thru_411.pdf)). (b) The principles to establish allowability or unallowability of certain items of cost ([2 CFR sections 200.420 through 200.476](2CFR200.420_thru_200.476.pdf)).(2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.c. *Special Audit Procedures for Public Assistance CAPs*(1) Verify that the State public assistance agency is complying with the submission requirements, i.e., an amendment is promptly submitted when any of the events identified in [45 CFR section 95.509](45CFR95.509.pdf) occur.(2) Verify that public assistance CAP includes the required documentation in accordance with [45 CFR section 95.507](45CFR95.507.pdf).(3) *Testing of the Public Assistance CAP* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of the cost principles and produce an equitable distribution of costs. Appropriate detailed tests may include:(a) Examining the results of the employee compensation system or in addition the records for employee compensation to ascertain if they are accurate, allowable, and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged.(b) Since the most significant cost pools in terms of dollars are usually allocated based upon the distribution of income maintenance and social services workers’ efforts identified through random moment time studies, determining whether the time studies are implemented and operated in accordance with the methodologies described in the approved public assistance CAP. For example, verifying the adequacy of the controls governing the conduct and evaluation of the study, and determining that the sampled observations were properly selected and performed, the documentation of the observations was properly completed, and the results of the study were correctly accumulated and applied. Testing may include observing or interviewing staff who participate in the time studies to determine if they are correctly recording their activities.(c) Testing statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation bases are reasonable, updated as necessary, and do not contain any material omissions.(4) *Testing of Charges Based Upon the Public Assistance CAP* – If the approved public assistance CAP is determined to be in compliance with the cost principles and produces an equitable distribution of costs, verify that the methods of charging costs to Federal awards are in accordance with the approved CAP and the provisions of the approval documents issued by HHS. Detailed compliance tests may include:(a) Verifying that the cost allocation schedules, supporting documentation and allocation data are accurate and that the costs are allocated in compliance with the approved CAP.(b) Reconciling the allocation statistics of labor costs to employee compensation records (e.g., random moment sampling observation forms).(c) Reconciling the allocation statistics of non-labor costs to allocation data, (e.g., square footage or case counts).(d) Verifying direct charges to supporting documents (e.g., purchase orders).(e) Reconciling the costs to the Federal claims. |

### Cost Principles for Nonprofit Organizations

If the federal program is an NPO, pull up the 2021 OMB compliance supplement [Allowable Costs/Cost Principles section](Cost%20Principles%20for%20Nonprofit%20Organizations.pdf). This section can be completed as an addendum to the FACCR, saved within in your working papers and can the cross referenced section can also be added on this page.

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

*(Source: 2021 OMB Compliance Supplement Part 3)*

### Audit Implications Summary

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

### OMB Compliance Requirements

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

***Grants and Cooperative Agreements***

***All Non-Federal Entities***

**Written Procedure Requirements:**

Non-Federal entities must establish written procedures to implement the requirements of [2 CFR section 200.305](2CFR200.305.pdf) ([2 CFR section 200.302(b)(6)](2CFR200.302%28b%29%286%29.pdf)).

***States***

[U. S. Department of the Treasury (Treasury) regulations at 31 CFR part 205 implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.).](UG_Cash_Management_States_US_treasury_support.pdf)

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

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

[The following link provides for a further discussion on minimized elapsed time.](UG_Cash%20Management_Reimbursement_Advance_discussion.pdf)

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

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

[Cost-Reimbursement Contracts under the Federal Acquisition Regulation](UG_Cash%20Management_Cost-Reimbursement_Contracts_under_FAR.pdf)

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

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

***Pass-through Entities***

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

**Source of Governing Requirements**

The requirements for cash management are contained in [2 CFR sections 200.302(b)(6)](2CFR200.302%28b%29%286%29.pdf) and [200.305](2CFR200.305.pdf), [31 CFR part 205](31CFR205.pdf), [48 CFR sections 52.216-7(b)](48CFR52.216-7.pdf) and [52.232-12](48CFR52.232-12.pdf), program legislation, Federal awarding agency regulations, and the terms and conditions of the Federal award.

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

* USDA, DOT, and EPA have not made any adjustments or exceptions that directly impact references within this compliance requirement.

**Availability of Other Information**

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

*(Source: 2021 OMB Compliance Supplement Part 3)*

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

*(Source: AOS CFAE)*

**Part 4 OMB Program Specific Requirements**

No program specific requirements noted in OMB Compliance Supplement for Cash Management.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### Additional Program Specific Information

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

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](UG_Cash%20Management_Audit%20Objectives.pdf)

**Additional Control Test Objectives for Written Procedures**

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

* UG requires a written policy for the requirements outlined in [2 CFR 200.302(b)(6)](2CFR200.302%28b%29%286%29.pdf) *Payments*
* Document whether the non-Federal entity established written procedures consistent with the requirements in 2 CFR 200.302(b)(6) to minimize the time elapsing between the transfer of funds.
* It is auditor judgment how to report instances where the entity either lacks having a written policy or their written policy is insufficient to meet the requirements of 2 CFR 200.302(b)(6).
	+ While auditors would normally use a written policy as the basis for the compliance control, there could be other key controls in place to ensure program compliance.
	+ The lack of a policy would be noncompliance, which could rise to the level of material noncompliance and even a control deficiency (SD / MW) if there were underlying internal control deficiencies.
		- If there are key controls in place operating effectively, AOS auditors would report the lack of the required UG policy as a management letter citation. However, in subsequent audits, evaluate if the noncompliance should be elevated if not adopted. Written policies aid in consistency and adherence to requirements strengthening internal control processes.

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Note**: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.**Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| *Grants and cooperative agreements to non-Federal entities other than States*1. Review trial balances related to Federal funds for unearned revenue. If unearned revenue balances are identified, consider if such balances are consistent with the requirement to minimize the time between drawing and disbursing Federal funds. 2. Select a sample of advance payments and verify that the non-Federal entity minimized the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity. 3. When non-Federal entities are funded under the reimbursement method, select a sample of transfers of funds from the U.S. Treasury or pass-through entity and trace to supporting documentation and ascertain if the entity paid for the costs for which reimbursement was requested prior to the date of the reimbursement request ([2 CFR section 200.305(b)(3)](2CFR200.305%28b%29%283%29.pdf)). 4. When a program receives program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, or interest earned on such funds; perform tests to ascertain if these funds were disbursed before requesting additional Federal cash draws [(2 CFR section 200.305(b)(5)](2CFR200.305%28b%29%285%29.pdf)).5. Review records to determine if interest in excess of $500 per year was earned on Federal cash draws. If so, determine if it was remitted annually to the Department of Health and Human Services, Payment Management System ([2 CFR section 200.305(b)(9)](2CFR200.305%28b%29%289%29.pdf)). *Cost-reimbursement contracts under the Federal Acquisition Regulation* 6. Perform tests to ascertain if the non-Federal entity requesting reimbursement (a) disbursed funds prior to the date of the request, or (b) meets the conditions allowing for the request for costs incurred, but not necessarily paid for, i.e., ordinarily within 30 days of the request ([48 CFR section 52.216-7(b](48CFR52.216-7%28b%29%281%29.pdf))). *Loans, Loan Guarantees, Interest Subsidies, and Insurance*7. Perform tests to ascertain if the non-Federal entity complied with applicable program requirements.*All Pass-Through Entities*8. For those programs where a pass-through entity passes Federal funds through to subrecipients, select a representative sample of subrecipient payments and ascertain if the pass-through entity implemented procedures to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized ([2 CFR section 200.305(b)(1)](2CFR200.305%28b%29%281%29.pdf)). |

### Audit Implications Summary

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

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

### 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](2CFR200.308.pdf), [200.309](2CFR200.309.pdf), and [200.403](2CFR200.403.pdf)(h). A period of performance may contain one or more budget periods.

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all financial obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award ([2 CFR section 200.344(b)](2CFR200.344%28b%29.pdf)). 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 section 200.1\_Obligations](2CFR200.1_Obligations.pdf)).

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 section 200.1](2CFR200.001.pdf) Definitions for “budget period,” “financial obligations,” “period of performance”, [2 CFR section 200.308](2CFR200.308.pdf) Revisions of budget and program plans, [2 CFR section 200.309](2CFR200.309.pdf) Modifications to period of performance, [2 CFR section 200.344](2CFR200.344.pdf) (closeout), program legislation, Federal awarding agency regulations; and the terms and conditions of the award.

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

* USDA, HUD, EPA and DOT have not made any adjustments or exceptions that directly impact references within this compliance requirement.

**Part 4 OMB Program Specific Requirements**

OMB Uniform Guidance section 200.343(b) requires nonfederal entities to liquidate all obligations incurred under the federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award unless the federal awarding agency or pass-through entity authorizes an extension.

FTA Circular 5010.1E describes Period of Performance as “the time during which the recipient or subrecipient may incur new obligations to carry out the scope of work authorized under the Grant or Cooperative Agreement. FTA, or the pass-through entity, must include the start and end dates of the period of performance in the Grant or Cooperative Agreement, regardless of whether pre-award authority has been exercised. The start date is the Federal Award Date of an Award (5010.1E(I)(5)(a)(111)).”

Typically, for traditional programs an award for preventative maintenance or operating activities is not meant to be an open, ongoing award. These awards should contain no more than three apportionment fiscal years of funding. The award may be amended multiple times to account for the three fiscal years of funding allocated to the recipient. Any request may only be for the immediately preceding year and/or current year activities.

For CARES Act, CRRSAA, and formula (5307 and 5311) programs under Emergency Relief, all expenses must be incurred on or after January 20, 2020. Grants for operating assistance and preventive maintenance using CARES Act or CRRSAA funds may cover a period of time that corresponds to the expected spend-down rate of the funds, and the agency may establish the end of the period of performance of the grant accordingly.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### Additional Program Specific Information

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

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Period%20_of_Performance_Federal_Funds_Auditobjectives.pdf)

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

### Suggested Audit Procedures – Compliance

|  |
| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of performance.2. For Federal awards with performance period beginning dates during the audit period, test transactions for costs recorded during the beginning of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the Federal awarding agency or the pass-through entity.3. For Federal awards with performance period ending dates during the audit period, test transactions for costs recorded during the latter part and after the period of performance and verify that the costs had been incurred within the period of performance. 4. For Federal awards with performance period ending dates during the audit period, test transactions for Federal award costs for which the obligation had not been liquidated (payment made) as of the end of the period of performance and verify that the liquidation occurred within the allowed time period.5. Test adjustments (e.g., manual journal entries) for Federal award costs and verify that these adjustments were for transactions that occurred during the period of performance. |

### Audit Implications Summary

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

### OMB Compliance Requirements – Procurement

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

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

*Non-Federal Entities Other than States*

2020 Revision to the Uniform Guidance Procurement Rules

Note that the 2 CFR was revised on August 12, 2020 and the revisions are effective November 13, 2020. The revisions included higher thresholds for micro-purchase ($10,000) and simple acquisitions ($250,000). The August revisions are reflected in all references in this section.

Expectations for reporting findings related to the purchase threshold changes in the 2020 revision to the Uniform Guidance.

The 2020 revision to the Uniform Guidance included changes to purchase thresholds for procurement. Although the UG revisions were effective on November 12, 2020, for awards provided by agencies that had adopted the revisions as of that date, certain agencies adopted the revisions after that date or have not adopted them as of the date of this Supplement. The status of adoption by agency is provided in Part 8, Appendix 2 to this Supplement. Due to the challenge and burden for an entity of adopting increased purchase thresholds policies for awards provided by certain agencies, but not for awards provided by other agencies, auditors are not expected to develop audit findings for entities that have implemented increased the purchase thresholds for all awards after November 12, 2020.

Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at [2 CFR sections 200.317 through 200.327](2CFR200.317_thru_200.327.pdf). They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200. A non-Federal entity must:

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

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

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

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

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

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

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

When awarding subcontracts, non-Federal entities receiving cost-reimbursement contracts under the Federal Acquisition Regulation (FAR) must comply with the clauses at [48 CFR section 52.244-2](48CFR52.244-2.pdf) (consent to subcontract), [52.244-5](48CFR52.244-5.pdf) (competition), [52.203-13](48CFR52.203-13.pdf) (code of business ethics), [52.203-16](48CFR52.203-16.pdf) (conflicts of interest), and [52.215.12](48CFR52.215-12.pdf) (cost or pricing data); and the terms and conditions of the contract. The FAR defines “subcontracts” as a contract, i.e., a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them, entered into by a subcontractor to furnish supplies or services for performance of a prime contract or a subcontract. It includes, but is not limited to, purchase orders, and changes and modifications to purchase orders.

**Source of Governing Requirements – Procurement**

The requirements that apply to procurement under grants and cooperative agreements are contained in [2 CFR sections 200.317 through 200.327](2CFR200.317_thru_200.327.pdf), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements that apply to procurement under cost-reimbursement contracts under the FAR are contained in 48 CFR parts [03](48CFR_Part_3.pdf), [15](48CFR_Part_15.pdf), [44](48CFR_Part_44.pdf) and the clauses at [48 CFR section 52.244-2](48CFR52.244-2.pdf), [52.244-5](48CFR52.244-5.pdf), [52.203-13](48CFR52.203-13.pdf), [52.203-16](48CFR52.203-16.pdf), and [52.215-12](48CFR52.215-12.pdf); agency FAR Supplements; and the terms and conditions of the contract.

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

* DOT has made additions and edits to part 317. EPA has made additions and edits to part 318. HHS has made additions and edits to parts 212, 318, 320 and 325. The most recent compilation of agency additions and exceptions is provided on the CFO website here <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014. AOS evaluated agency exceptions through August 2019. For further evaluation of exceptions, AOS auditors only will need to reference our internal AOS evaluation process [at the following link](http://portal/BP/Intranet/Auditor%20Resources%20File%20Bin/UG%20Exception%20Evaluation%20by%20Federal%20Agency.xlsx).

### OMB Compliance Requirements – Suspension and Debarment

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

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in [2 CFR section 180.220](2CFR180.220.pdf). All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in [2 CFR section 180.215](2CFR180.215.pdf).-

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in [2 CFR section 180.995](2CFR180.995.pdf) and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/> (click on Search Record, then click on Advanced Search-Exclusions) (**Note:** The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity ([2 CFR section 180.300](2CFR180.300.pdf)).

Non-Federal entities receiving contracts from the Federal Government are required to comply with the contract clause at [48 CFR 52.209-6](48CFR52.209-6.pdf) before entering into a subcontract that will exceed $30,000, other than a subcontract for a commercially available off-the-shelf item.

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

The requirements for nonprocurement suspension and debarment are contained in OMB guidance in [2 CFR part 180](2CFR_Part_180.pdf), which implements Executive Orders 12549 and 12689, “Debarment and Suspension;” Federal awarding agency regulations in Title 2 of the CFR adopting/implementing the OMB guidance in 2 CFR part 180; program legislation; and the terms and conditions of the award.

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

Government-wide requirements related to suspension and debarment and doing business with suspended or debarred subcontractors under cost reimbursement contracts under the FAR are contained in [48 CFR section 9.405-2(b)](48CFR9.405-2%28b%29.pdf) and the clause at [48 CFR section 52.209-6](48CFR52.209-6.pdf).

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Part 4 OMB Program Specific Requirements**

Recipients must use qualifications-based selection procedures (Brooks Act or an equivalent qualifications-based requirement of a state) when acting as contracting agencies to procure engineering and design-related services for construction of a transit project (49 USC 5325(b)(1)).

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

**Written Procedure Requirements:**

[2 CFR 200.318](2CFR200.318.pdf)(c)(1) requires non-Federal entities maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.

[2 CFR 200.318](2CFR200.318.pdf)(c)(2) requires non-Federal entities maintain written standards of conduct covering organizational conflicts of interest when the non-federal entity has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian tribe.

[2 CFR 200.320](2CFR200.320.pdf)(d)(3) requires non-federal entities to have a written method for conducting technical evaluations of the competitive proposals received and for selecting contract recipients.

[2 CFR 200.319](2CFR200.319.pdf)(c) requires that the written procedures required by 2 CFR 200.320(d)(3) ensure all solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured and identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

*(Source: CFAE/eCFR)*

### Additional Program Specific Information

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

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Procurement_Suspension_Debarment_Auditobjectives.pdf)

**Additional Control Test Objectives for Written Procedures:**

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

* UG requires a written policy for the requirements outlined in [2 CFR 200.318](2CFR200.318.pdf)(c)(1), [2 CFR 200.318](2CFR200.318.pdf)(c)(2), [2 CFR 200.320](2CFR200.320.pdf)(d)(3), and [2 CFR 200.319](2CFR200.319.pdf)(c)*.*
* Document whether the non-Federal entity established written procedures consistent with the following requirements:
	+ 2 CFR 200.318(c)(1) for employee conflicts of interest.
	+ 2 CFR 200.318(c)(2) for organizational conflicts of interest.
	+ 2 CFR 200.320(d)(3) for selection and awarding of competitive contracts.
	+ 2 CFR 200.319(c) for minimum evaluation criteria for bids and proposals.
* It is auditor judgment how to report instances where the entity either lacks having a written policy or their written policy is insufficient to meet the requirements of 2 CFR 200.318(c)(1), 2 CFR 200.318(c)(2), 2 CFR 200.320(d)(3), and 2 CFR 200.319(c).
	+ While auditors would normally use a written policy as the basis for the compliance control, there could be other key controls in place to ensure program compliance.
	+ The lack of a policy would be noncompliance, which could rise to the level of material noncompliance and even a control deficiency (SD / MW) if there were underlying internal control deficiencies.
		- If there are key controls in place operating effectively, AOS auditors would report the lack of the required UG policy as a management letter citation. However, in subsequent audits, evaluate if the noncompliance should be elevated if not adopted. Written policies aid in consistency and adherence to requirements strengthening internal control processes.

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| *(Procedures 2 – 5 apply to non-Federal entities other than States.)*2. Obtain the entity’s procurement policies and verify that the policies comply with the compliance requirements highlighted above.3. Verify that the entity has written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts ([2 CFR section 200.318(c)](2CFR200.318%28c%29.pdf) and [48 CFR sections 52.203-13](48CFR52.203-13.pdf) and [52.203-16](48CFR52.203-16.pdf)).4. Ascertain if the entity has a policy to use statutorily or administratively imposed in‑State or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference ([2 CFR section 200.319(c)](2CFR200.319%28c%29.pdf)).5. Select a sample of procurements and perform the following procedures:a. Examine contract files and verify that they document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price ([2 CFR section 200.318(i)](2CFR200.318%28i%29.pdf) and [48 CFR part 44](48CFR_Part_44.pdf) and section [52.244-2](48CFR52.244-2.pdf)).b. For grants and cooperative agreements, verify that the procurement method used was appropriate based on the dollar amount and conditions specified in [2 CFR section 200.320](2CFR200.320.pdf).Current micro-purchase and simplified acquisition thresholds can be found in the FAR (48 CFR subpart 2.1, “Definitions”) c. Verify that procurements provide full and open competition ([2 CFR section 200.319](2CFR200.319.pdf) and [48 CFR section 52.244-5](48CFR52.244-5.pdf)).d. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified ([2 CFR sections 200.319](2CFR200.319.pdf) and [200.320(c)](2CFR200.320%28c%29.pdf) and [48 CFR section 52.244-5](48CFR52.244-5.pdf)).e. Ascertain if cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold, including contract modifications, and that this analysis supported the procurement action [(2 CFR section 200.324](2CFR200.324.pdf) and [48 CFR section 15.404-3](48CFR15.404-3.pdf)).  **Note**: A cost or price analysis is required for each procurement action, including each contract modification, when the total amount of the contract and related modifications is greater than the simplified acquisition threshold.)f. Verify consent to subcontract was obtained when required by the terms and conditions of a cost reimbursement contract under the FAR ([48 CFR section 52.244-2](48CFR52.244-2.pdf)). **Note**: If the non-Federal entity has an approved purchasing system, consent to subcontract may not be required unless specifically identified by contract terms or conditions. The auditor should verify that the approval of the purchasing system is effective for the audit period being reviewed. *(Procedures 6 and 7 apply to all non-Federal entities)*6. Review the non-Federal entity’s procedures for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded ([2 CFR sections 200.213](2CFR200.213.pdf) and [200.318(h)](2CFR200.318%28h%29.pdf); [2 CFR section 180.300](2CFR180.300.pdf); [48 CFR section 52.209-6](48CFR52.209-6.pdf)).7. Select a sample of procurements and subawards and test whether the non-Federal entity followed its procedures before entering into a covered transaction. |

### Audit Implications Summary

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

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

**Note:** Transfers of Federal awards to another component of the same auditee under [2 CFR part 200, subpart F](2CFR200_subpart_F.pdf), do not constitute a subrecipient or contractor relationship.

### OMB Compliance Requirements

A pass-through entity (PTE) must (see here for [2 CFR 200.332(a)](2CFR200.332%28a%29.pdf)):

- *Identify the Award* *and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following (see here for [2 CFR 200.332(b)-(f)](2CFR200.332%28b%29_through_%28f%29.pdf)):

1. The subrecipient’s prior experience with the same or similar subawards;
2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
3. Whether the subrecipient has new personnel or new or substantially changed systems; and
4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by [2 CFR section 200.521](2CFR200.521.pdf).
* *Ensure Accountability of For-Profit Subrecipients* – Some Federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the Federal funds provided. Because 2 CFR part 200 does not make subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits ([2 CFR section 200.501(h)](2CFR200.501%28h%29.pdf)).

**Source of Governing Requirements**

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), [2 CFR sections 200.331](2CFR200.331.pdf), [.332](2CFR200.332.pdf), and .[501(h)](2CFR200.501%28h%29.pdf); Federal awarding agency regulations; and the terms and conditions of the award.

*(Source: 2021 OMB Compliance Supplement Part 3)*

**Agency Codification Adjustments/Exceptions:**

* HHS made additions and edits to part 501 (subpart F). The most recent compilation of agency additions and exceptions is provided on the CFO website here <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014. AOS evaluated agency exceptions through August 2019. For further evaluation of exceptions, AOS auditors only will need to reference our internal AOS evaluation process [at the following link](http://portal/BP/Intranet/Auditor%20Resources%20File%20Bin/UG%20Exception%20Evaluation%20by%20Federal%20Agency.xlsx).
* USDA, HUD, DOL, DOT, and EPA have not made any adjustments or exceptions that directly impact references within this compliance requirement.

**Part 4 OMB Program Specific Requirements**

No program specific requirements noted in OMB Compliance Supplement for Reporting.

*(Source: 2021 OMB Compliance Supplement, Part 4, DOT, Federal Transit Cluster)*

### Additional Program Specific Information

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

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Subrecipient_Monitoring_Auditobjectives.pdf)

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)****(Reference / link to documentation where testing was performed testing):** |
| **Note**: The auditor may consider coordinating the tests related to subrecipients performed as part of C., “Cash Management” (tests of cash reporting submitted by subrecipients); E., “Eligibility” (tests that subawards were made only to eligible subrecipients); I., “Procurement and Suspension and Debarment” (tests of ensuring that a subrecipient is not suspended or debarred), and L, “Reporting (tests of performance data reported to funding sources) with the testing of “Subrecipient Monitoring.”**Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Review the PTE’s subrecipient monitoring policies and procedures to gain an understanding of the PTE’s process to identify subawards, evaluate risk of noncompliance, and perform monitoring procedures based upon identified risks.

2. Review subaward documents including the terms and conditions of the subaward to ascertain if, at the time of subaward (or subsequent subaward modification), the PTE made the subrecipient aware of the award information required by [2 CFR section 200.332(a)](2CFR200.332%28a%29.pdf) sufficient for the PTE to comply with Federal statutes, regulations, and the terms and conditions of the award.3. Review the PTE’s documentation of monitoring the subaward and consider if the PTE’s monitoring provided reasonable assurance that the subrecipient used the subaward for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward. 4. Ascertain if the PTE verified that subrecipients expected to be audited as required by [2 CFR part 200, subpart F](2CFR200_subpart_F.pdf), met this requirement [(2 CFR section 200.332(f)](2CFR200.332%28f%29.pdf)). This verification may be performed as part of the required monitoring under [2 CFR section 200.332(d)(2)](2CFR200.332%28d%29%282%29.pdf) to ensure that the subrecipient takes timely and appropriate action on deficiencies detected though audits. |

### Audit Implications Summary

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

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

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

Per paragraph 13.39 of the **AICPA Audit Guide, *Government Auditing Standards and Single Audits*,** ****, the **following are required to be reported** as audit findings in the federal awards section of the schedule of findings and questioned costs **(**[**see 2CFR200 section 516**](2CFR200.516.pdf)**):**

* Significant deficiencies and material weaknesses in internal control over major programs
* Material noncompliance with the federal statues, regulations, or the terms and conditions of federal awards related to major programs
* 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.
* Known questioned costs that are greater than $25,000 for programs that are not audited as major.
* 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 federal awards (for example, a scope limitation that is not otherwise reported as a finding).
* 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 for federal awards.
* Significant instances of abuse relating to major programs
* 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 [Section 200.511(b)](2CFR200.511%28b%29.pdf) of the Uniform Guidance, materially misrepresents the status of any prior audit finding.

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

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

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

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| **Cross-reference to internal control matters (significant deficiencies or material weaknesses), if any, documented in the FACCR:** |
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| **Cross-reference to questioned costs and matter of noncompliance, if any, documented in this FACCR:** |
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**Per paragraph 13.50 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*,** 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 orally. If such a communication is provided in writing to the auditee, there is no requirement for that communication to be referenced in the Uniform Guidance compliance report. Per table 13-2 **a matter must meet the following in order to be communicated in the management letter:**

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

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