**Federal Awards Compliance Audit Guidance and Testing**

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

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Higher Education Emergency Relief Fund (HEERF) |
| **AL#:** | #84.425E –HEERF Student Aid Portion  #84.425F – HEERF Institutional Portion  #84.425N – HEERF Fund for the Improvement of Postsecondary Education (FIPSE) Formula Grant |
|  | The Education Stabilization Fund HEERF section also contains the following programs; however, these are not likely to occur at most local schools. If they occur, they are not likely to be material. If you need to test one of the following programs, refer to the Addendum of the OMB Circular Compliance Supplement and AOS Auditors contact CFAE using the FACCR Specialty in Spiceworks (IPA use the [FACCR Inbox](mailto:faccr@ohioauditor.gov)).  #84.425J – Historically Black Colleges and Universities (HBCUs)  #84.425K – HEERF Tribally Controlled Colleges and Universities (TCCUs)  #84.425L – HEERF Minority Service Institutions (MSIs)  #84.425M – HEERF Strengthening Institutions Program (SIP)  #84.425S – HEERF Supplemental Assistance to Institutions of Higher Education (SAIHE) 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 local governments and Not-For–Profits. It does not include all required references and testing for Institutes of Higher Learning or State organizations.**

**This FACCR only includes testing steps for the HEERF portion of this program. Should your entity have expenditures that fall under the ESF portion of the program, please obtain and test the ESF FACCR. In situations where expenditures have been made under both HEERF and ESF portions, please evaluate whether the population for controls and substantive testing should be combined or separated. The AL #84.425 program will be opined on as one program (NOT a cluster).**

**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**](mailto: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.**

**TABLE OF CONTENTS**

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

# AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS

Federal awarding agencies adopted or implemented the Uniform Guidance in 2 CFR part 200. The OMB guidance is directed to Federal agencies and, by itself, does not establish regulatory requirements binding on non-federal entities. The Federal awarding agency implementation gives regulatory effect to 2 CFR part 200 for that agency’s Federal awards and, thereby, establishes requirements with which the non-Federal entity must comply when incorporated in the terms and conditions of the federal award. The 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)*

# Table of Contents

Table of Contents

[Important Information (please read) 2](#_Toc89517566)

[AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS 4](#_Toc89517567)

[Table of Contents 5](#_Toc89517568)

[Introduction: Materiality by Compliance Requirement Matrix 7](#_Toc89517569)

[Part I – OMB Compliance Supplement Information 11](#_Toc89517570)

* [I. Program Objectives 11](#_Toc89517571)
* [II. Program Procedures 13](#_Toc89517572)
* [III. Source of Governing Requirements 14](#_Toc89517573)
* [IV. Other Information 16](#_Toc89517574)

[Part II – Pass through Agency and Grant Specific Information 20](#_Toc89517575)

* [Program Overview 20](#_Toc89517576)
* [Testing Considerations 20](#_Toc89517577)
* [Reporting 20](#_Toc89517578)

[PART III – APPLICABLE COMPLIANCE REQUIREMENTS 21](#_Toc89517579)

[A. ACTIVITIES ALLOWED OR UNALLOWED 21](#_Toc89517580)

* [OMB Compliance Requirements 21](#_Toc89517581)
* [Additional Program Specific Information 25](#_Toc89517582)
* [Audit Objectives and Control Testing 26](#_Toc89517583)
* [Suggested Audit Procedures – Compliance 27](#_Toc89517584)
* [Audit Implications Summary 28](#_Toc89517585)

[B. ALLOWABLE COSTS/COST PRINCIPLES 29](#_Toc89517586)

* [Applicability of Cost Principles 29](#_Toc89517587)
* [Additional Program Specific Information 33](#_Toc89517588)
* [Indirect Cost Rate 34](#_Toc89517589)
* [Cost Principles for States, Local Governments and Indian Tribes 36](#_Toc89517590)
* [Allowable Costs – State/Local Government-wide Central Service Costs 43](#_Toc89517591)
* [Allowable Costs – State Public Assistance Agency Costs 47](#_Toc89517592)
* [Cost Principles for Nonprofit Organizations 50](#_Toc89517593)
* [Audit Implications Summary 51](#_Toc89517594)

[G. MATCHING, LEVEL OF EFFORT, EARMARKING 52](#_Toc89517595)

* [OMB Compliance Requirements 52](#_Toc89517596)
* [Additional Program Specific Information 54](#_Toc89517597)
* [Audit Objectives and Control Testing 55](#_Toc89517598)
* [Suggested Audit Procedures – Compliance 56](#_Toc89517599)
* [Audit Implications Summary 57](#_Toc89517600)

[H. PERIOD OF PERFORMANCE 58](#_Toc89517601)

* [OMB Compliance Requirements 58](#_Toc89517602)
* [Additional Program Specific Information 59](#_Toc89517603)
* [Audit Objectives and Control Testing 60](#_Toc89517604)
* [Suggested Audit Procedures – Compliance 61](#_Toc89517605)
* [Audit Implications Summary 62](#_Toc89517606)

[I. PROCUREMENT AND SUSPENSION AND DEBARMENT 63](#_Toc89517607)

* [OMB Compliance Requirements – Procurement 63](#_Toc89517608)
* [OMB Compliance Requirements – Suspension and Debarment 64](#_Toc89517609)
* [Additional Program Specific Information 66](#_Toc89517610)
* [Audit Objectives and Control Testing 67](#_Toc89517611)
* [Suggested Audit Procedures – Compliance 69](#_Toc89517612)
* [Audit Implications Summary 71](#_Toc89517613)

[L. REPORTING 72](#_Toc89517614)

* [OMB Compliance Requirements 72](#_Toc89517615)
* [Additional Program Specific Information 78](#_Toc89517616)
* [Audit Objectives and Control Testing 80](#_Toc89517617)
* [Suggested Audit Procedures – Compliance 81](#_Toc89517618)
* [Audit Implications Summary 84](#_Toc89517619)

[Program Testing Conclusion 85](#_Toc89517620)

# Introduction: Materiality by Compliance Requirement Matrix

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

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

**(1)** Taken form Part 2, Matrix of Compliance Requirements, of the [OMB Compliance Supplement](https://www.whitehouse.gov/wp-content/uploads/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

***US Department of Education Program Specific Information:***

**Note:** This program 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.

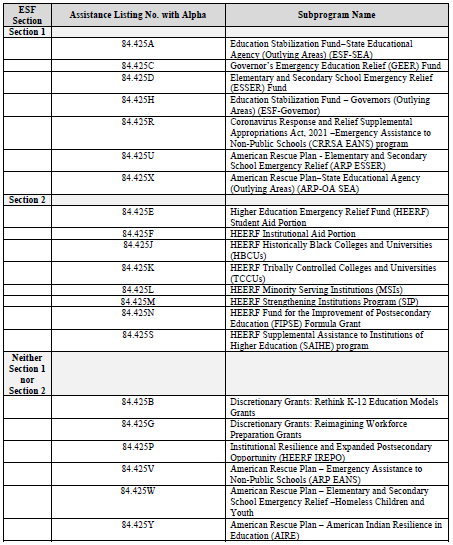
The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020 and provides $30.75 billion for the Education Stabilization Fund (ESF) to prevent, prepare for, and respond to coronavirus, domestically or internationally. The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSA Act), was signed into law on December 27, 2020, and provided an additional $81.88 billion for the ESF programs. Finally, the American Rescue Plan Act of 2021 (ARP Act) was enacted on March 11, 2021 and includes approximately $165 billion for the ESF.

Although funds from the CARES Act, CRRSA Act, and ARP Act were allocated to the U.S. Department of Education (ED) under a single Federal program (ESF), ED awarded or will award ESF funds to grantees under 22 subprograms (one subprogram, 84.425Q, was awarded only to for-profit institutions and therefore not included in this Compliance Supplement Addendum). An alphabetic character at the end of the 84.425 Assistance Listing Number (ALN) was used to delineate the specific subprogram. Each subprogram has its own funding requirements and compliance requirements.

The 2021 ESF Compliance Supplement was broken down into two sections. Section 1 of the 2021 ESF Compliance Supplement identified the objectives and compliance requirements of the subprograms generally focused on elementary and secondary education. Section 2 identified the objectives and compliance requirements of the subprograms focused on higher education.

The ESF program was included in the original release of the 2021 Compliance Supplement, but Section 1 did not include implications of the ARP Act relevant to 84.425U and 84.425X. This addendum to the 2021 Compliance Supplement provides the needed updates to Section 1 for the ARP Act. Section 2 is not included in this addendum because ARP Act updates were made to Section 2 in the original release of the 2021 Compliance Supplement. Although this addendum includes updates to Section 1 for all other ARP Act revisions, auditors were able to use the original release of the 2021 Compliance Supplement for major program testing of auditees expending funds under Section 2 subprograms or Section 1 subprograms excluding 84.425U or 84.425X. Auditors should document whether they use the 2021 Compliance Supplement or 2021 Compliance Supplement Addendum for the audit.

The table below updates the table included in the 2021 Compliance Supplement to identify the subprograms included in each section by name and Assistance Listing Number with alphabetic character identifier. It also identifies the subprograms that are not included in either the 2021 Compliance Supplement or this ESF Compliance Supplement Addendum. For those subprograms not addressed in the 2021 Compliance Supplement or this ESF Compliance Supplement Addendum, auditors must refer to Part 7 of the 2021 Compliance Supplement, “Guidance for Auditing Programs Not Included In This Compliance Supplement” and, where applicable, Notices Inviting Applications and other award documentation.



Due to the timing of awards under the ARP, an auditee may not have expended, or even been awarded, funds under some ARP subprograms during the audit period covered by this Compliance Supplement Addendum.

*(Source: 2021 OMB Compliance Supplement Addendum Part 4,* *ESF Introduction)*

### I. Program Objectives

***US Department of Education Program Specific Information:***

The objective of the HEERF program is to use HEERF grant funds to “prevent, prepare for, and respond to coronavirus” through grants to eligible institutions. Each subprogram (denoted by separate Assistance Listing alpha) has specific funding requirements, as described below.

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

### II. Program Procedures

***US Department of Education Program Specific Information:***

**Overview**

*Coronavirus Aid, Relief, and Economic Security Act (CARES Act) – HEERF I*

The CARES Act appropriated $2.2 trillion to provide economic aid to the American people negatively impacted by the COVID-19 pandemic. Of that money, approximately $14 billion was given to the Office of Postsecondary Education (referred to herein as HEERF I subprograms or funding).

The HEERF I funding had several different methods for the distribution of the approximately $14 billion in funds to eligible institutions based on a student enrollment formula and institution status. Ninety percent ($12.56 billion) under Section 18004(a)(1) of the CARES Act to institutions using a formula based on student enrollment, in which at least 50 percent must be reserved to provide students with emergency financial aid grants to help cover expenses related to the disruption of campus operations due to coronavirus (the “Student Aid Portion;” Assistance Listing 84.425E) and the remainder of which may be used to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus (the “Institutional Portion”; Assistance Listing 84.425F). A total of 7.5 percent ($1.05 billion) under Section 18004(a)(2) of the CARES Act for grants for Historically Black Colleges and Universities (HBCUs), Tribally Controlled Colleges and Universities (TCCUs), and other Minority Serving Institutions (MSIs) as well as other institutions eligible for the Strengthening Institutions Program (SIP) under parts A and B of title III, parts A and B of title V, and Subpart 4 of Part A of title VII of the Higher Education Act of 1965, as amended (HEA), to address needs directly related to the coronavirus (Assistance Listings 84.425J, 84.425K, 84.425L, and 84.425M). Finally, a total of 2.5 percent ($349 million) under Section 18004(a)(3) of the CARES Act for additional funds for institutions under Part B of title VII of the HEA, through the Fund for the Improvement of Postsecondary Education (FIPSE), to prioritize schools that received less than $500,000 under other parts of Section 18004.

In order to notify each institution of the eligibility for funding, and the allocation amount they could apply for under each subprogram, the US Department of Education (ED) published lists of eligible institutions and their allocation amounts based on the formulas provided in each HEERF subprogram. While, generally, all institutions were eligible to receive funding under the Student Aid Portion (Assistance Listing 84.425E) and the Institutional Portion (Assistance Listing 84.425F), some institutions also received awards under the funding streams in sections 18004(a)(2) and 18004(a)(3), depending on their eligibility under other HEA grant programs, the composition of their student body, and whether the total amount of HEERF funding received by the institution would otherwise have been less than $500,000.

Any unobligated CARES Act Section 18004(a)(1) funds as of December 27, 2020, were repurposed for and have been included in the total funds under CRRSAA Section 314(a)(1).

*Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) – HEERF II*

The CRRSAA provides an additional $22.7 billion for institutions through the HEERF (referred to herein as HEERF II subprograms or funding). Of this amount, over $20 billion is available for supplements and new formula grants to assist public and private nonprofit colleges and universities in preparing for, preventing, and responding to coronavirus. Funding was appropriated for the existing (a)(1), (a)(2) and (a)(3) subprograms previously authorized under the CARES Act, with some changes.

Allocations to institutions under Section 314(a)(1) of CRRSAA (the analogous provision of Section 18004(a)(1) of the CARES Act) are based on a formula that includes the relative shares of Federal Pell Grant recipients, the relative shares of non-Pell Grant recipients, and the relative shares of Federal Pell and non-Pell Grant recipients exclusively enrolled in distance education prior to the coronavirus emergency.

The CRRSAA provides a minimum amount of funding that each institution must devote towards financial aid grants to students. In addition, funds allocated for students enrolled exclusively in distance education may be used only for financial aid grants to students.

For CRRSAA (a)(3) funds, ED created the Supplemental Assistance to Institutions of Higher Education (SAIHE) subprogram (Assistance Listing 84.425S) with seven categories (absolute priorities) of funding specified in a notice inviting applications and described in the CRRSAA (a)(3) SAIHE Certification and Agreement. Generally, institutions that receive grants under the SAIHE subprogram must use funds for either the allowable institutional uses or making additional emergency financial aid grants to students, as specified in the CRRSAA (a)(3) SAIHE Certification and Agreement.

*American Rescue Plan (ARP) – HEERF III*

The ARP provides an additional $39.6 billion for institutions through the HEERF (referred to herein as HEERF III subprograms or funding) with funding appropriated through existing subprograms previously authorized under the CRRSAA. The ARP, with some changes, is a continuation of the CRRSAA (a)(1), (a)(2), and (a)(3) subprograms.

The ARP established two new required uses of HEERF III institutional portion grant funds for public and private nonprofit institutions in which a portion of funds must be used to:

(a) implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the HEA.

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

### III. Source of Governing Requirements

***US Department of Education Program Specific Information:***

The main source of governing requirements are the CARES Act, Pub. L. No. 116-136 (March 27, 2020); the CRRSAA, Pub. L. No. 116-260 (December 27, 2020); and the ARP, Pub. L. No. 117-2 (March 11, 2021).

In addition to the required [SF-424 form](https://www.grants.gov/forms/sf-424-family.html), a completed certification and agreement was the application used to award HEERF I funds under each Assistance Listing alpha. HEERF I grantees who received Institutional and/or Student Aid Portion funds received HEERF II grant awards automatically with a supplemental agreement attached. Eligible institutions that did not receive HEERF I Institutional and/or Student Aid Portion funds had to submit a certification and agreement as part of their applications for HEERF II funds. Similarly, HEERF II grantees who received Institutional and/or Student Aid Portion funds will receive HEERF III grant awards automatically with a supplemental agreement attached. Eligible institutions that did not receive HEERF II Institutional and/or Student Aid Portion funds have to submit a certification and agreement as part of their applications for HEERF III funds. The certification and agreements and supplemental agreements also help form the basis of the governing requirements for these subprograms:

1. Student Aid Portion (Assistance Listing 84.425E)
2. *HEERF I –* [(a)(1) Student Aid Portion Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/heerfstudentscertificationagreement42020a.pdf)
3. *HEERF II –* [(a)(1) Student Aid Portion Supplemental Agreement](https://www2.ed.gov/about/offices/list/ope/supplementalagreement314a1s.pdf)
4. *HEERF II –* [(a)(1) Student Aid Portion Certification and Agreement (Gold C&A)](https://www2.ed.gov/about/offices/list/ope/goldcaheerfiistudent.pdf)
5. *HEERF III –* [(a)(1) Student Aid Portion Supplemental Agreement](https://www2.ed.gov/about/offices/list/ope/arpheerfiiisupplementa1student.pdf)
6. *HEERF III* – [(a)(1) Student Aid Portion Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/arpheerfiiicaa1student.pdf)
7. Institutional Portion (Assistance Listing 84.425F)
   1. *HEERF I –* [(a)(1) Institutional Portion Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/candahbcutccumsisipa.pdf)
   2. *HEERF II –* [(a)(1) Institutional Portion Supplemental Agreement](https://www2.ed.gov/about/offices/list/ope/supplementalagreement314a1i.pdf)
   3. *HEERF II –* [(a)(1) Institutional Portion Certification and Agreement (Blue C&A)](https://www2.ed.gov/about/offices/list/ope/bluecaheerfiiinstitution.pdf)
   4. *HEERF III –* [(a)(1) Institutional Portion Supplemental Agreement](https://www2.ed.gov/about/offices/list/ope/supplementalagreement314a1i.pdf)
   5. *HEERF III –* [(a)(1) Institutional Portion Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/arpheerfiiicaa1institution.pdf)
8. (a)(2) Programs (Assistance Listings 84.425J, 84.425K, 84.425L, 84.425M)
   1. *HEERF I –* [(a)(2) Programs Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/candahbcutccumsisipa.pdf)
   2. *HEERF II –* [(a)(2) Programs Supplemental Agreement](https://www2.ed.gov/about/offices/list/ope/crrsaaa2supplementalagreement.docx)
   3. *HEERF II –* [(a)(2) Programs Certification and Agreement (Purple C&A)](https://www2.ed.gov/about/offices/list/ope/crrsaaa2supplementalagreement.docx)
   4. *HEERF III –* (a)(2) Programs Supplemental Agreement (not released as of July 1, 2021)
   5. *HEERF III –* (a)(2) Programs Certification and Agreement (not released as of July 1, 2021)
9. (a)(3) Programs (Assistance Listings 84.425N and 84.425S)
   1. *HEERF I –* [(a)(3) FIPSE Formula Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/candafipsea.pdf)
   2. *HEERF II* – [(a)(3) SAIHE Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/heerfiisaihea3ca.pdf)
   3. *HEERF III –* (a)(3) SSRP Certification and Agreement (not released as of July 1, 2021)

Furthermore, the regulations in the Education Department General Administrative Regulations (EDGAR) 34 CFR parts 75, 77, 81, 82, 84, 86, 97, 98, and 99; the OMB Guidelines to Agencies on Government-wide Debarment and Suspension (non-procurement) in 2 CFR Part 180, as adopted and amended as regulations of ED in 2 CFR Part 3485; and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards in 2 CFR Part 200, as adopted and amended as regulations of ED in 2 CFR Part 3474 (Uniform Guidance) also apply.

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

CFAE Note:

For more information on the HEERF program please refer to the [Department of Education’s website](https://www2.ed.gov/programs/heerf/index.html).

*(Source: AOS CFAE)*

### IV. Other Information

***US Department of Education Program Specific Information:***

**Availability of Other Program Information**

*Rulemaking for Student Eligibility*

*On May 14, 2021, ED* [published its Final Rule (FR)](https://www.federalregister.gov/d/2021-10190) *regarding eligibility to receive emergency financial aid grants to students under HEEEF. The FR constitutes ED’s binding final rule regarding student eligibility for HEERF assistance and amends the Department’s position to allow any individual who is or was enrolled (as defined in 34 CFR 668.2) at an eligible institution (as defined in 34 CFR 600.2) on or after March 13, 2020, the date of declaration of the national emergency concerning the novel coronavirus disease, to receive HEERF assistance.*

*Frequently Asked Questions (FAQs) and Other Guidance*

A number of documents posted on ED’s [HEERF I website](https://www2.ed.gov/about/offices/list/ope/caresact.html), [HEERF II website](https://www2.ed.gov/about/offices/list/ope/crrsaa.html), and [HEERF III website](https://www2.ed.gov/about/offices/list/ope/arp.html) contain information pertinent to the compliance requirements described in this compliance supplement. ED strongly encourages auditors to regularly check the HEERF websites for updated FAQs and other pertinent guidance and reporting information. Earlier-released documents listed may also be applicable to later subprograms. The information below is current as of July 1, 2021.

1. [CARES Act HEERF Rollup FAQs](https://www2.ed.gov/about/offices/list/ope/heerffaqsoct2020rollup.pdf) (Compilation of all five previously-released HEERF FAQ documents in one document) (updated November 20, 2020)
2. HEERF Reporting Requirements & Lost Revenue Discussion Webinar (October 14, 2020)
   1. [Webinar Recording](https://mediasite.ed.gov/webcast/Play/e125773d112c4ae5bf8580236cd6efe91d)
   2. [Slides used in the Presentation](https://www2.ed.gov/about/offices/list/ope/heerfreportingwebinar10142020.pdf)
3. [CRRSAA HEERF II Section 314(a)(1) Frequently Asked Questions](https://www2.ed.gov/about/offices/list/ope/updatedfaqsfora1crrssaheerfii.pdf) (January 14, 2021 and updated March 19, 2021)
4. [CRRSAA HEERF II Section 314(a)(2) Frequently Asked Questions](https://www2.ed.gov/about/offices/list/ope/heerfiia2faqsv2.pdf) (February 2021)
5. [HEERF I and HEERF II Comparison Fact Sheet](https://www2.ed.gov/about/offices/list/ope/factsheetcrrsaaheerfii.pdf) (January 14, 2021 and updated March 19, 2021)
6. [Notice Inviting Applications for Funds Under the Higher Education Emergency Relief Fund (HEERF), Section 314(a)(1); Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA)](https://www.federalregister.gov/documents/2021/01/15/2021-00935/notice-inviting-applications-for-funds-under-the-higher-education-emergency-relief-fund-heerf) (January 15, 2021)
7. [Notice Inviting Applications: (a)(3) Supplemental Assistance to Institutions of Higher Education (SAIHE) program](https://www.federalregister.gov/documents/2021/03/29/2021-06527/applications-for-new-awards-fund-for-the-improvement-of-postsecondary-education-supplemental) (March 29, 2021)
8. [HEERF Lost Revenue FAQs](https://www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf) (March 19, 2021)
9. [HEERF Notice of Interpretation for Period of Allowable HEERF Expenses](https://www.federalregister.gov/d/2021-05849) (March 22, 2021)
10. [HEERF Period of Allowable Expenses Grant Records Notice (March 19, 2021)](https://www2.ed.gov/about/offices/list/ope/heerfg5notice.pdf)
11. [ARP HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) (May 11, 2021)
12. [Notice Inviting Applications: Public and Private Nonprofit Institutions of Higher Education Under the Higher Education Emergency Relief Fund](https://www.federalregister.gov/d/2021-10194) (May 13, 2021)
13. [HEERF Lost Revenue FAQs](https://www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf) (March 19, 2021)

*Reporting and Data Collection Requirements*

There are three components to reporting for HEERF: (1) public reporting on the (a)(1) Student Aid Portion; (2) public reporting on the (a)(1) Institutional Portion, (a)(2), and (a)(3) subprograms, as applicable; and (3) the annual report.

1. HEERF Public Reporting (a)(1) Student Aid Portion
   1. CARES Act HEERF I
      1. [HEERF Student Portion Public Reporting Requirement](https://www.federalregister.gov/d/2020-19041) (August 31, 2020; *Federal Register* notice revising the original May 6, 2020 [Electronic Announcement](https://ifap.ed.gov/electronic-announcements/050620HigherEdEmergencyReliefFundRptg))
   2. CRRSAA and ARP HEERF II and III
      1. [Public Posting Requirement of Grant Information for Higher Education Emergency Relief Fund Grantees](https://www.federalregister.gov/d/2021-10196) (May 13, 2021; Federal Register notice)
2. HEERF Institution Portion, (a)(2), and (a)(3) Funds Public Reporting Forms
   1. CARES Act HEERF I (prior to May 13, 2021)
      1. [Word Document](https://www2.ed.gov/about/offices/list/ope/heerf-quarterly-reporting-v131.docx) | [PDF Document](https://www2.ed.gov/about/offices/list/ope/heerf-quarterly-reporting-v131.pdf)
      2. [Email to Grantees Regarding HEERF Reporting Requirements](https://www2.ed.gov/about/offices/list/ope/heerf-reporting-email.pdf) (September 23, 2020)
   2. CRRSAA and ARP HEERF II and III
      1. [Word Document](https://www2.ed.gov/about/offices/list/ope/arpheerfiiiquarterlyreport.docx) | [PDF Document](https://www2.ed.gov/about/offices/list/ope/arpheerfiiiqaurterlyreporting.pdf)
3. Annual Report
   1. [User Guide, Webinar, and Other Resources](https://covid-relief-data.ed.gov/grantee-help)
   2. [Annual Reporting Form Data Elements](https://www2.ed.gov/about/offices/list/ope/heerf-data-collection.pdf) (December 21, 2020)
   3. [Email to grantees successfully submitting portal access information](https://www2.ed.gov/about/offices/list/ope/portalaccessemail12182020.pdf) (December 21, 2020)
   4. [Letter from Acting Assistant Secretary Extending Reporting Deadline](https://www2.ed.gov/about/offices/list/ope/heerfgranteeltr12921.pdf) (January 28, 2021)

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

***US Department of Education Program Specific Information:***

Due to the timing of awards under the ARP, an auditee may not have expended, or even been awarded, funds under some ARP subprograms during the audit period covered by this Compliance Supplement Addendum.

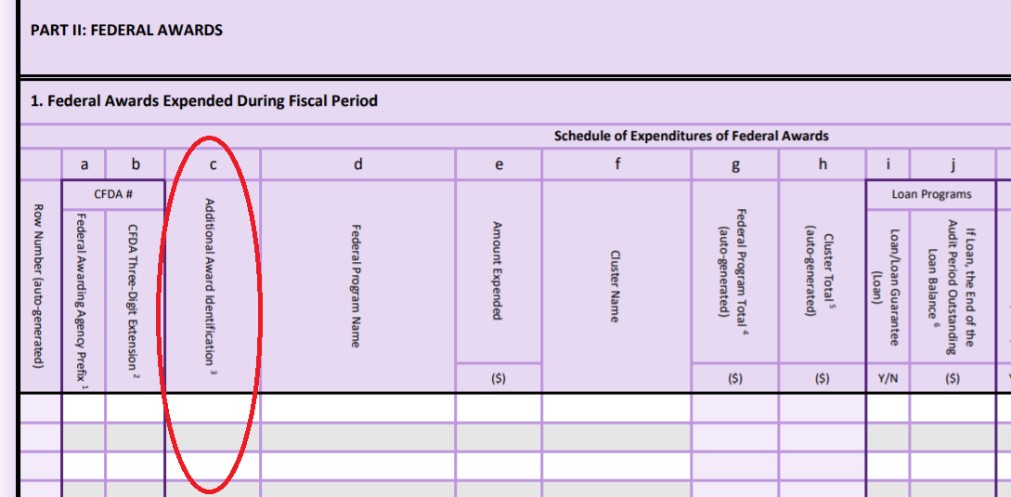
*Identifying Subawards on the SEFA and Data Collection Form*

For purposes of SEFA and Data Collection Form reporting, auditees should identify the individual subprogram(s) the funds were expended under, including each separate Assistance Listing Number with the applicable alpha character. A total for the ESF in its entirety should also be provided. Auditees may need to determine which subprogram funds were expended through review of grant documents and inquiry of the source agency.

In order to more precisely identify subprogram expenditures, while also incorporating guidance issued by OMB on separately identifying COVID-19 expenditures, ED issued a memo to grantees on August 4, 2021, requesting that auditees include on the Federal Awards page of the Data Collection Form (Form SF-SAC): (1) whether the program is novel coronavirus 2019 (COVID-19) relief assistance; and (2) the subprogram Assistance Listing Number alpha.

Therefore, to apply this requirement to the ESF subprograms, on the Federal Awards page of the Form SF-SAC, under column c with the heading “Additional Award Identification,” include the phrase “COVID-19” to be consistent with OMB’s guidance in Appendix VII of the 2020 and 2021 Compliance Supplements. Then place a comma (,) after COVID-19 and include the full Assistance Listing number and capitalized alpha character (A, B, C, etc.) (see Example below).

Figure: The column to include this information on the SF-SAC Form, Federal Awards page is circled in the figure below:



Example: A grantee listing the program “Higher Education Emergency Relief Fund – Student Aid Portion” (ALN84.425E) on the SEFA would complete the Federal Awards page of the SF-SAC in the following manner:



Note: Please note the inclusion of “COVID-19, 84.425E” in column c for the COVID-19 Higher Education Emergency Relief fund (HEERF) program.

*Major Program Determination*

Many auditees will have received and expended funds under multiple ESF subprograms. For major program purposes, auditors must evaluate 84.425 in its entirety. All ESF subprogram expenditures, even those expenditures of subprograms not addressed in this ESF Compliance Supplement, must be considered as part of the ESF program for major program determination purposes.

*(Source: 2021 OMB Compliance Supplement Addendum Part 4,* *ESF Introduction)*

# 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. 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.**

### 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:**

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).

**Part 4 OMB Program Specific Requirements**

***US Department of Education Program Specific Information:***

Institutions must demonstrate that costs incurred are allowable under the relevant statutory provisions and consistent with the purpose of the ESF “to prevent, prepare for, and respond to coronavirus.” In general, the CARES Act authorized broad uses of HEERF funds, with specific standards for the different subprograms described below.

The CRRSAA expanded the allowable uses for supplemental awards and new awards made under Section 314(a)(1) of the CRRSAA. The expanded use of funds authority also applies to unexpended HEERF I funds as of December 27, 2020 (the date of enactment of the CRRSAA).

The ARP is largely a continuation of the CRRSAA subprograms but added two new required uses of HEERF III institutional portion grant funds for public and private nonprofit institutions and eliminated the institutional use of funds “to carry out student support activities authorized by the HEA that address needs related to coronavirus.”

Auditors are strongly encouraged to review the FAQ documents and guidance materials which provide specific examples that help interpret these statutory standards.

*Emergency Financial Aid Grants to Students (Student Aid Portion)*

For the (a)(1) Student Aid Portion (Assistance Listing 84.425E), disbursements made under the Student Aid Portion are required to be made directly to students. ED’s [final rule](https://www.federalregister.gov/d/2021-10190) (Eligibility to Receive Emergency Financial Aid Grants to Students under the Higher Education Emergency Relief Programs, May 14, 2021) on student eligibility for HEERF states that all students who are or were enrolled in an institution of higher education on or after the date of the declaration of the national emergency due to the coronavirus (March 13, 2020) are eligible for emergency financial aid grants from the HEERF, regardless of whether they completed a FAFSA or are eligible for Title IV.

* HEERF I Student Aid Portion funds expended prior to December 27, 2020: These funds must be paid to the student “for expenses related to the disruption of campus operations due to coronavirus (including eligible expenses under a student’s cost of attendance, such as food, housing, course materials, technology, health care, and child care)” (CARES Act Section 18004(c)).
* HEERF II, and HEERF III, and HEERF I funds liquidated (spent) on or after December 27, 2020: These funds must be used to provide financial aid grants to students (including students exclusively enrolled in distance education), which may be used for “any component of the student’s cost of attendance or for emergency costs that arise due to coronavirus, such as tuition, food, housing, healthcare (including mental health care), or child care” (CRRSAA section 314(c)(3); ARP section 2003).

The CRRSAA and ARP requires that schools prioritize students with exceptional need, such as students who receive Pell Grants. However, students do not need to be Pell recipients or students who are eligible for Pell grants in order to receive a financial aid grant.

Beyond Pell eligibility, other types of exceptional need could include students who may be eligible for other federal or state need-based aid or have faced significant unexpected expenses either for themselves or that would affect their financial circumstances, such as the loss of employment, reduced income, or food or housing insecurity. In addition, the CRRSAA and ARP explicitly states that emergency financial aid grants to students may be provided to students exclusively enrolled in distance education provided they have exceptional need ([HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) questions 11 and 12).

Institutions may not condition the receipt of financial aid grants to students on continued or future enrollment in the institution and may not require a student to consent to the application of the financial aid grants to satisfy a student’s outstanding account balance as a condition of receipt of or eligibility for the financial aid grant. Institutions that add preconditions to receiving a financial aid grant that thwart this requirement may be subjected to oversight and corrective action.

For their HEERF I Student Aid Portion grant, institutions may use their remaining funds (as of December 27, 2020) to provide financial aid grants in the same way they can use their supplemental Student Aid Portion funds under the CRRSAA and ARP, including by providing such grants to students exclusively enrolled in distance education.

As it relates to expenditures under the (a)(1) Student Aid Portion, auditors should determine (1) the institution had a documented plan to distribute funds to students, (2) that the institution did not place any restrictions on the expenditure of those funds beyond what is in the statute, above, and (3) the institution expended the entirety of the Student Aid Portion grant on financial aid grants to students and that the institution did not reimburse itself for any costs or expenses previously issued to students.

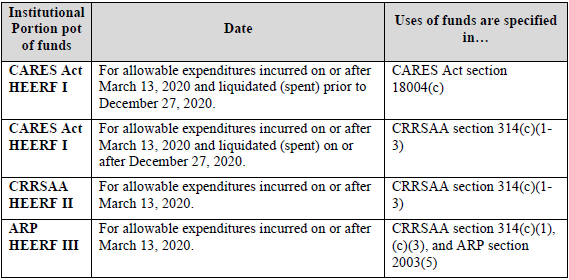
*Institutional Costs (Institutional Portion, (a)(2), and (a)(3) Funds)*

* *HEERF I Institutional Portion funds liquidated (spent) prior to December 27, 2020*: For the (a)(1) Institutional Portion (Assistance Listing 84.425F), allowable expenditures incurred and liquidated prior to December 27, 2020 must have been “to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus, so long as such costs do not include payment to contractors for the provision of pre-enrollment recruitment activities; endowments; or capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship” (CARES Act Section 18004(c)).

Other allowable expenditures under the HEERF I Institutional Portion included additional emergency financial grants made to students (in accordance with the requirements of the Student Portion). Additionally, institutions also could have reimbursed themselves for refunds previously made to students on or after March 13, 2020, if those refunds were necessitated by significant changes to the delivery of instruction, including interruptions in instruction, due to the coronavirus. Please see questions 31 and 44 from the HEERF I CARES Act [Rollup FAQs](https://www2.ed.gov/about/offices/list/ope/heerffaqsoct2020rollup.pdf) for more information. Generally, lost revenue was not a permissible expenditure under the HEERF I Institutional Portion.

* *HEERF II, HEERF III, and HEERF I funds liquidated (spent) on or after December 27, 2020*. Beginning December 27, 2020, any unused HEERF I Institutional Portion funds, new HEERF II Institutional Portion funds, HEERF III Institutional Portion Funds may be used to defray expenses associated with coronavirus (including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll) and to make additional financial grants to students (CRRSAA Section 314(c)(1-3); ARP Section 2003). HEERF I and HEERF II funds may also have been used to carry out student support activities authorized by the HEA that address needs related to coronavirus. The ARP eliminated this use of funds for HEERF III.

The following table describes this distinction:



*New required uses of ARP HEERF III Institutional Portion grant funds:* ARP created two new requirements that a portion of HEERF III institutional funds must be used (a) to implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the HEA (see [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) questions 21 and 28–35).

*HEERF I (a)(2) and (a)(3) subprograms:* For the HEERF I (a)(2) subprograms, (Assistance Listings 84.425J, 84.425K, 84.425L, and 84.425M) and HEERF I (a)(3) FIPSE Formula Grant (Assistance Listing 84.425N), funds “may be used to defray expenses, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, payroll incurred by institutions and for grants to students for any component of the student’s cost of attendance (as defined under section 472 of the HEA), including food, housing, course materials, technology, health care, and child care” (CARES Act Sections 18004(a)(2) and 18004(a)(3)).

*HEERF II and HEERF III (a)(2) and (a)(3) subprograms:* New HEERF II (a)(2) and (a)(3) funds and new HEERF III (a)(2) and (a)(3) funds (under Assistance Listings 84.425J, 84.425K, 84.425L, and 84.425M and 84.425S) may also be used under the allowable uses of funds detailed in CRRSAA Section 314(c) above.

*Excise Tax for CRRSAA HEERF II:* Institutions that were required to pay an excise tax for tax year 2019 based on investment income under section 3968 of the Internal Revenue Code may only use their HEERF II funds for financial aid grants to students, or for sanitation, personal protective equipment, or other general health and safety expenses related to the coronavirus emergency, and such institutions’ allocations are reduced by 50 percent, unless a waiver has been obtained from ED (CRRSAA Section 314(d)(6)). The ARP eliminated this requirement for HEERF III funds.

*SAIHE Subprogram:* Under the SAIHE subprogram (Assistance Listing 84.425S), depending on the absolute priority an institution applied for and received SAIHE grant funds under, the uses and limitations for that institutions’ SAIHE funds are specified in the [(a)(3) SAIHE Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/heerfiisaihea3ca.pdf).

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

**CFAE Note:**

In March 2021, the U.S. Department of Education updated its guidance on lost revenue under HEERF. The prior guidance required all lost revenue be supported with allowable expenditures which did not include replacement of revenue. In the updated guidance, which applies retroactively to the beginning of the program, lost revenue was added as one of the allowable uses of all HEERF institutional funds and is applicable to CARES (HEERF I), Consolidated Appropriations Act (HEERF II), and ARP HEERF (HEERF III).

The U.S. Department of Education’s [FAQs](https://www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf) indicate lost revenue evaluations must be associated with the coronavirus pandemic and can be made back to the March 13, 2020 national emergency declaration.

FAQ #2 states that reimbursement for lost revenue is allowable for the Institutional Portion program (assistance listing number 84.425F) and the (a)(2) and (a)(3) programs (assistance listing numbers 84.425J, K, L, M, and N) for HEERF grant funds received under:

* The Coronavirus Aid, Relief, and Economic Security (CARES) Act (HEERF I);
* The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) (HEERF II); and
* The American Rescue Plan (ARP) (HEERF III).

Reimbursement for lost revenue is not an allowable use of funds for the Student Aid Portion program (assistance listing number 84.425E) under HEERF I, HEERF II, or HEERF III or the Proprietary Grant Funds to Students program (assistance listing number 84.425Q), as those grant programs may be used only to provide financial aid grants to students.

FAQ #12 states, the incurring of the “cost” of lost revenue on an institution’s HEERF grant award does not need to be assigned to any costs or expenses that the institution will pay using the amount of lost revenue since the allowable cost in the HEERF grant programs is the reimbursement of the lost revenue itself.

Allowable sources of lost revenue include tuition, room, board, fees, summer camps, bookstore, parking, and various other auxiliary services, to name a few (see FAQ #3). Lost revenue does not have to be associated with, or netted against, expenses and is considered an allowable use (type of expenditure) for quarterly and annual reporting to ED and on the Schedule of Expenditures of Federal Awards (SEFA).

FAQ #9 indicates that institutions who claim students who have dropped classes as lost revenue cannot also provide those same students with tuition reimbursement. Auditors should verify institutions meet these restrictions if lost revenue is claimed.

*(Source: CFAE)*

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

## 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(e).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:**

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).

**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**

***US Department of Education Program Specific Information:***

The Uniform Guidance Cost Principles described in 2 CFR Part 200, Subpart E, apply to the HEERF subprogram. As described earlier, for the HEERF subprograms covered in this section, institutions generally have broad uses of funds. Some items of cost in Subpart E of the Uniform Guidance require prior approval under [2 CFR section 200.407](https://www.ecfr.gov/cgi-bin/text-idx?SID=783c533c982a3e15188b76c8e82a413a&mc=true&node=se2.1.200_1407&rgn=div8) by ED. However, in its [HEERF II FAQs](https://www2.ed.gov/about/offices/list/ope/updatedfaqsfora1crrssaheerfii.pdf) published on January 14, 2021, and [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) published on May 11, 2021, ED waived prior approval for certain items of cost (as described in questions 20 and 45, respectively).

HEERF grant funds must **not** be used for:

* funding contractors for the provision of pre-enrollment recruitment activities;
* marketing or recruitment (see [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) question 27 for information on reengagement activities);
* endowments;
* capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship;
* senior administrator or executive salaries, benefits, bonuses, contracts, incentives, stock buybacks, shareholder dividends, capital distributions, and stock options, or any other cash or other benefit for a senior administrator or executive;
* religious worship, instruction, or proselytization or equipment or supplies to be used for religious worship, instruction, or proselytization; or
* construction or purchase of real property.

Please see also [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) question 22 for more information.

As noted above, grantees are prohibited from using HEERF funding for the acquisition of real property or construction under [34 CFR section 75.533](https://www.ecfr.gov/cgi-bin/text-idx?SID=702fa4c3f2eb8959992bd86c5b6dcc04&mc=true&node=pt34.1.75&rgn=div5#se34.1.75_1533). This includes using HEERF grant funds on capital projects, including deferred maintenance and capital improvement.

However, this general prohibition on construction and acquisition of real property does not extend to activities that meet the definition of “minor remodeling” under [34 CFR section 77.1](https://www.ecfr.gov/cgi-bin/text-idx?SID=702fa4c3f2eb8959992bd86c5b6dcc04&mc=true&node=pt34.1.77&rgn=div5). Minor remodeling means minor alterations in a previously completed building, for purposes associated with the coronavirus. The term also includes the extension of utility lines, such as water and electricity, from points beyond the confines of the space in which the minor remodeling is undertaken but within the confines of the previously completed building The term does not include permanent building construction, structural alterations to buildings, building maintenance, or repairs (see also [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) questions 23 and 24).

Reasonable direct administrative costs and indirect costs at an institution’s approved negotiated indirect cost rate may be charged against Assistance Listing 84.425F (the Institutional portion). An institution may not apply an indirect cost rate to its estimated amount of lost revenue.

No administrative costs and no indirect costs are allowed to be charged against Assistance Listing 84.425E (the Student Aid Portion), as CARES Act Section 18004(c), CRRSAA Section 314 (c)(3), and ARP 2003 require that these funds be used to provide emergency financial aid grants to students. All administrative costs must be reasonable and necessary and conform to Cost Principles described in 2 CFR Part 200 Subpart E of the Uniform Guidance (see [HEERF II FAQs](https://www2.ed.gov/about/offices/list/ope/updatedfaqsfora1crrssaheerfii.pdf) Question 18 and [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) questions 43 and 44).

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

**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)*

**CFAE Note:**

In March 2021, the U.S. Department of Education updated its guidance on lost revenue under HEERF. The prior guidance required all lost revenue be supported with allowable expenditures which did not include replacement of revenue. In the updated guidance, which applies retroactively to the beginning of the program, lost revenue was added as one of the allowable uses of all HEERF institutional funds and is applicable to CARES (HEERF I), Consolidated Appropriations Act (HEERF II), and ARP HEERF (HEERF III).

The U.S. Department of Education’s [FAQs](https://www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf) indicate lost revenue evaluations must be associated with the coronavirus pandemic and can be made back to the March 13, 2020 national emergency declaration.

FAQ #2 states that reimbursement for lost revenue is allowable for the Institutional Portion program (assistance listing number 84.425F) and the (a)(2) and (a)(3) programs (assistance listing numbers 84.425J, K, L, M, and N) for HEERF grant funds received under:

* The Coronavirus Aid, Relief, and Economic Security (CARES) Act (HEERF I);
* The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) (HEERF II); and
* The American Rescue Plan (ARP) (HEERF III).

Reimbursement for lost revenue is not an allowable use of funds for the Student Aid Portion program (assistance listing number 84.425E) under HEERF I, HEERF II, or HEERF III or the Proprietary Grant Funds to Students program (assistance listing number 84.425Q), as those grant programs may be used only to provide financial aid grants to students.

FAQ #12 states, the incurring of the “cost” of lost revenue on an institution’s HEERF grant award does not need to be assigned to any costs or expenses that the institution will pay using the amount of lost revenue since the allowable cost in the HEERF grant programs is the reimbursement of the lost revenue itself.

Allowable sources of lost revenue include tuition, room, board, fees, summer camps, bookstore, parking, and various other auxiliary services, to name a few (see FAQ #3). Lost revenue does not have to be associated with, or netted against, expenses and is considered an allowable use (type of expenditure) for quarterly and annual reporting to ED and on the Schedule of Expenditures of Federal Awards (SEFA).

FAQ #9 indicates that institutions who claim students who have dropped classes as lost revenue cannot also provide those same students with tuition reimbursement. Auditors should verify institutions meet these restrictions if lost revenue is claimed.

*(Source: CFAE)*

### Additional Program Specific Information

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

### Indirect Cost Rate

Except for those non-Federal entities described in [2 CFR part 200, Appendix VII, paragraph D.1.b](2CFR200_Appendix_VII_Para_D(1)(b).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(g).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(f).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(3).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 level  a. Since a significant amount of the costs in the public assistance CAP are allocated based on employee compensation reporting systems, it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.  b. *General Audit Procedures* – The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of 2 CFR 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 \_\_\_\_\_\_\_\_\_\_** |

## G. MATCHING, LEVEL OF EFFORT, EARMARKING

**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

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the statutes, regulations, and the terms and conditions of awards pertaining to the program. For programs listed in this Supplement, these specific requirements are in Part 4, “Agency Program Requirements,” or Part 5, “Clusters of Programs,” as applicable.

However, for matching, [2 CFR section 200.306](2CFR200.306.pdf) provides detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity’s records;

- Are not included as contributions for any other Federal award;

- Are necessary and reasonable for accomplishment of project or program objectives;

- Are allowed under [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF) (Cost Principles);

- Are not paid by the Federal Government under another award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;

- Are provided for in the approved budget when required by the Federal awarding agency; and

- Conform to other provisions of this part, as applicable.

“Matching,” “level of effort,” and “earmarking” are defined as follows:

1. *Matching* or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

2. *Level of effort* includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.

3. *Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program’s funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

**Source of Governing Requirements**

The requirements for matching are contained in [2 CFR section 200.306,](2CFR200.306.pdf) program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking 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:**

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).

**Part 4 OMB Program Specific Requirements**

***US Department of Education Program Specific Information:***

* 1. ***Matching -*** Not Applicable
  2. ***Level of Effort -*** *Not Applicable*
  3. **Earmarking**

Institutions must use no less than 50 percent of funds received under Section 18004(a)(1) of the CARES Act to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to coronavirus. Conversely, institutions may use up to 50 percent of the funds they receive under Section 18004(a)(1) to “cover any costs associated with significant changes to the delivery of instruction due to the coronavirus so long as such costs do not include payment to contractors for the provision of pre-enrollment recruitment activities, including marketing and advertising; endowments; or capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship.” See <https://www2.ed.gov/about/offices/list/ope/heerfInstitutionalcertificationagreement42020v2a.pdf>.

Section 314(d)(5) of the CRRSAA requires institutions to provide at least the same amount of funding in financial aid grants to students as was required to be provided under its original Student Aid Portion HEERF I allocation amount. The minimum amount of CRRSAA Section 314(a)(1) funding that each institution must devote towards financial aid grants to students is represented in the “Student Aid Portion” (Assistance Listing 84.425E) of their supplement of new Student Aid Portion award and included in the [HEERF II Allocation Table](https://www2.ed.gov/about/offices/list/ope/314a1allocationtableheerfii.pdf).

Additionally, an institution that utilizes the expanded use of funds authority under the CRRSAA for its unspent HEERF I funds must ensure at least 50 percent of the funds it received under CARES Act section 18004(a)(1) (generally, its HEERF I Student Aid Portion award) is used for financial aid grants to students.

Under ARP, the amount of funds that a public and private nonprofit institution must devote to financial aid grants to students is the full amount allocated under the Student Portion (84.425E) subprogram of HEERF III.

The division of the (a)(1) funds into the Student Aid Portion and Institutional Portion was made by ED. Each were given as separate grant awards, the Student Aid Portion under Assistance Listing 84.425E and the Institutional Portion under Assistance Listing 84.425F.

The order of incurring costs which will be attributed to the Student Aid and Institutional portions is not relevant to the earmarking requirement but, rather, the relationships between these two portions must be met and measured by the end of the period of performance. Therefore, testing this requirement is only applicable at the end of the period of performance as defined below.

ARP created two new requirements that a portion of HEERF III institutional funds must be used (a) to implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the HEA. As noted in Question 35 of the ARP HEERF III ARP FAQs, institutions must document how the amount of the HEERF grant spent on these two required activities was reasonable and necessary given the unique needs and circumstances of the institution (see [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) questions 21 and 28–35).

Under the SAIHE subprogram (Assistance Listing 84.425S), depending on the absolute priority an institution applied for and received SAIHE grant funds under, the uses and limitations for that institutions’ SAIHE funds are specified in the [(a)(3) SAIHE Certification and Agreement](https://www2.ed.gov/about/offices/list/ope/heerfiisaihea3ca.pdf).

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

### Additional Program Specific Information

**This section should contain program specific information for Matching, Level of Effort, Earmarking that are applicable to the program AL being tested from and contained within the individual grant application, agreement, and policies. Include any additional material requirements and delete 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**](Matching_LevelofEffort_Earmarking_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):** |
| **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.** **Matching – Not Applicable**  **2. Level of Effort – Not Applicable**  **3. Earmarking**  a. Identify the applicable percentage or dollar requirements for earmarking.  b. Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).  c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.  d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).  e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.  f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type. |

### Audit Implications Summary

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

## H. PERIOD OF PERFORMANCE

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

### 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(b).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:**

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).

**Part 4 OMB Program Specific Requirements**

***US Department of Education Program Specific Information:***

*Period of Performance:* In the CARES Act, CRRSAA, and ARP Certification and Agreements, all institutions were given one calendar year (12 months) from the date of award in their HEERF Grant Award Notifications (GAN) to complete the performance of their HEERF grants.

Institutions generally must expend their HEERF grant funds within one year from the date when ED processed the most recent obligation of funds for each specific grant. Thus, institutions that received a supplemental award under ARP have one year to spend all remaining HEERF I, HEERF II, and new HEERF III funds for each grant from the date their HEERF III supplemental award is made. The specific period of performance will be indicated in Box 6 of the institution’s most recent GAN (see [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) Question 39).

*Pre-award Costs:* For CARES Act HEERF I awards, institutions were allowed to incur pre-award costs consistent with [2 CFR section 200.458](https://www.ecfr.gov/cgi-bin/text-idx?SID=783c533c982a3e15188b76c8e82a413a&mc=true&node=se2.1.200_1458&rgn=div8) and [34 CFR section 75.263](https://www.ecfr.gov/cgi-bin/text-idx?SID=5bce9552a9fd7b188f9e17d3cc487d8a&mc=true&node=pt34.1.75&rgn=div5#se34.1.75_1263) on or after March 13, 2020, the date of the declaration of the national emergency due to the coronavirus, to the date of their HEERF grant award for their (a)(1) Institutional Portion, (a)(2), and (a)(3) funds as long as those expenditures would have been allowable if incurred after the date of the HEERF grant award.

For the (a)(1) Student Aid Portion, institutions were only able to refund themselves for institutionally-funded emergency grants to students that were made (1) for authorized expenses related to the disruption of campus operations due to coronavirus as set forth in Section 18004(c) of the CARES Act; (2) to students eligible to receive emergency financial aid grants under the CARES Act; and (3) on or after March 13, 2020, the date the of the declaration of the national emergency due to the coronavirus.

For the HEERF II and HEERF III awards, funds may be used for all costs incurred on or after March 13, 2020. Report on the SEFA no earlier than the date of the award or substantial amendment to the award terms.

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

### 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 from 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

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

### Audit Implications Summary

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

## I. PROCUREMENT AND SUSPENSION AND DEBARMENT

### OMB Compliance Requirements – Procurement

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

***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:**

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(b).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**

***US Department of Education Program Specific Information:***

For those procurements supported by HEERF grant funds, auditors should determine if institutions sufficiently documented rationales and determinations in making any sole-source awards during the time of national emergency due to the coronavirus. Exceptions from the competitive procurement requirements of the Uniform Guidance may be accepted if institutions have documented that the public exigency or emergency would not permit a delay, in accordance with 2 CFR section 200.320(f)(2). A circumstance that may influence this determination is the length of time between the procurements and the emergency at issue. Specifically, exceptions are more likely to be acceptable the closer the procurement occurred to the March 13, 2020 declaration of the national emergency.

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

**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 from the pass-through agency 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(c).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(c).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(i).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(c).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(h).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 \_\_\_\_\_\_\_\_\_\_** |

## L. REPORTING

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

### OMB Compliance Requirements

*Financial Reporting*

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

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

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

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

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

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

*Performance and Special Reporting*

Non-Federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB ([2 CFR section 200.329(c)(1)](2CFR200.329(c)(1).pdf)). They also may be required to submit special reports as required by the terms and conditions of the Federal award.

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

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

**Federal Funding Accountability and Transparency Act**

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

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

*Federal Funding Accountability and Transparency Act*

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

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

Consistent with the OMB guidance,

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

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

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

*Reporting Site*

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

*Key data elements*

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

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

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

**Source of Governing Requirements**

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

1. Financial reporting, [2 CFR section 200.328](2CFR200.328.pdf)
2. Monitoring and reporting program performance, [2 CFR section 200.329](2CFR200.329.pdf)
3. Program legislation.
4. Transparency Act, implementing requirements in 2 CFR Part 170 and the FAR, and the previously listed OMB guidance documents.
5. Federal awarding agency regulations.
6. The terms and conditions of the award.

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

**Agency Codification Adjustments/Exceptions:**

The most recent compilation of agency additions and exceptions is provided on the CFO website here <https://www.cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014. AOS evaluated agency exceptions through 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).

**Part 4 OMB Program Specific Requirements**

***US Department of Education Program Specific Information:***

There are three components to reporting for HEERF: 1) public reporting on the (a)(1) Student Aid Portion; 2) public reporting on the (a)(1) Institutional Portion (a)(2) and (a)(3) subprograms (Quarterly Reporting Form), as applicable; and 3) the annual report.

The CARES Act 18004(e) and the CRRSAA 314(e) requires an institution receiving funds under HEERF I and HEERF II to submit a report to the secretary, at such time in such a manner as the secretary may require. While ARP does not explicitly identify procedures by which institutions must report on their uses of HEERF grant funds, ED exercises this reporting authority under 2 CFR section 200.328 and 2 CFR section 200.329.

1. **Financial Reporting**
2. *SF-270, Request for Advance or Reimbursement* – Not Applicable
3. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
4. *SF-425, Federal Financial Report* – Not Applicable
5. **Performance Reporting -** Not Applicable
6. **Special Reporting**
7. *Annual Reporting* (all HEERF grantees)

ED developed the HEERF Data Collection Form (OMB Control Number 1840-0850) that institutions must have used to satisfy the annual reporting requirement for HEERF I. This form, available for reference only [here](https://www2.ed.gov/about/offices/list/ope/heerf-data-collection.pdf), collected information about how the school used its CARES Act Section 18004(a)(1), (a)(2), and (a)(3) HEERF I funds. The form was required to be submitted to ED via the [Annual Report Data Collection System](https://covid-relief-data.ed.gov/grantee-help) on February 8, 2021 and applied to the reporting period from March 13, 2020 through December 31, 2020. Auditors should sample the amounts and data reported in the 2020 report with underlying documentation to ensure accuracy.

ED will be collecting an annual report for HEERF grantees in February 2022. ED will share more information regarding this annual report, which will require institutions to report on their uses of HEERF I CARES Act funds, HEERF II CRRSAA funds, and HEERF III ARP funds in advance of the ARP annual reporting deadline.

**Note:** Auditors are reminded that they must use the framework outlined in Part 1 of this Compliance Supplement to perform reasonable procedures to ensure that the compliance requirements identified as subject to audit are current and to determine whether there are any additional provisions of federal awards relevant to the compliance requirements subject to the audit that should be covered.

1. *Quarterly Public Reporting* for (a)(1) Institutional Portion, (a)(2), and (a)(3) funds (Assistance Listings 84.425F, 84.425J, 84.425K, 84.425L, 84.425M, 84.425N, 84.425S, as applicable)

The CARES, CRRSAA, and ARP institutional quarterly portion reporting requirements involve publicly posting completed forms on the institution’s website.

The forms must be conspicuously posted on the institution’s primary website on the same page the reports of the IHE’s activities as to the emergency financial aid grants to students (Student Aid Portion) are posted.

A new, separate form must be posted covering aggregate amounts spent for HEERF I, HEERF II, and HEERF III funds each quarterly reporting period (September 30, December 31, March 31, June 30), concluding after an institution has expended and liquidated all (a)(1) Institutional Portion, (a)(2), and (a)(3) funds and checks the “final report” box. IHEs must post this quarterly report form no later than 10 days after the end of each calendar quarter (October 10, January 10, April 10, July 10) apart from the first report, which was due October 30, 2020, and the report covering the first quarter of 2021, which is due July 10, 2021.

The CARES, CRRSAA and ARP reporting form may be accessed at OPE’s HEERF reporting website [here](https://www2.ed.gov/about/offices/list/ope/heerfreporting.html).

Please see the form instructions (located on page three of the document) for more information regarding compliance.

Auditors should determine if an institution was both timely and accurate in publicly posting its Quarterly Reporting Form from October 30, 2020, onward and sample these quarterly public reports and reconcile the publicly reported amounts with underlying documentation to ensure accuracy.

ED understands that this information may be unique and challenging to audit, particularly because auditors are asked to verify information posted on a webpage which may not be accessible during audit fieldwork. For these public reporting requirements, auditors may accept as evidence of compliance, contemporarily produced emails, webmaster logs, or other relevant documentation establishing a good-faith indication that the institution posted the required information at approximately the timelines established by the public reporting requirements (HEERF Grant Program Auditing Requirements, General Requirements and Information – All HEERF Grantees).

Please note that ED did not previously affirmatively indicate this reporting requirement was in place for HEERF II CRRSAA funds. As such, institutions may have until the end of the second calendar quarter, June 30, 2021, to post these retroactive reports if they have not already done so. Please see question 36 in the [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) for more information.

1. Quarterly Public Reporting for (a)(1) Student Aid Portion (Assistance Listings 84.425E)

For CARES, beginning on May 6, 2020, ED required institutions that received a HEERF I Section 18004(a)(1) Student Aid Portion award to publicly post certain information on their website no later than 30 days after award, and update that information every 45 days thereafter (by posting a new report). This was announced through an electronic announcement (EA).

On August 31, 2020, ED revised the EA by decreasing the frequency of reporting after the initial 30-day period from every 45 days thereafter to every calendar quarter. Grantees posting a 45-day report on or after August 31, 2020, should instead post a report every calendar quarter, with the first calendar quarter report due by October 10, 2020, and covering the period from after their last 45-day or 30-day report through the end of the calendar quarter on September 30, 2020.

On May 13, 2021, ED published an additional notice for student aid public reporting under CRRSAA and ARP, which requires that institutions publicly post certain information on their website. Institutions must publicly post their report as soon as possible, but no later than 30 days after the publication of the notice or 30 days after the date ED first obligated funds under HEERF I, II, or III to the institution for Emergency Financial Aid Grants to Students, whichever comes later. The report must be updated no later than 10 days after the end of each calendar quarter (September 30, and December 31, March 31, June 30).

Auditors should determine if an institution was both timely and accurate in publicly posting its Student Aid Portion Reports from May 6, 2020, onward and sample these public reports and reconcile the publicly reported amounts with underlying documentation to ensure accuracy (HEERF Grant Program Auditing Requirements, General Requirements and Information – All HEERF Grantees).

As noted above, ED understands that this information may be unique and challenging to audit, particularly because auditors are asked to verify information posted on a webpage which may not be accessible during audit fieldwork. For these public reporting requirements, auditors may will accept as evidence of compliance, contemporarily produced emails, webmaster logs, or other relevant documentation establishing a good-faith indication that the institution posted the required information at approximately the timelines established by our public reporting requirements.

Please note that ED did not previously affirmatively indicate this reporting requirement was in place for HEERF II CRRSAA funds. As such, institutions may have until the end of the second calendar quarter, June 30, 2021, to post these retroactive reports if they have not already done so. Please see question 36 in the [HEERF III FAQs](https://www2.ed.gov/about/offices/list/ope/arpfaqsample.pdf) for more information.

*Key Line Items* – The following are identified as critical information for the *Quarterly Public Reporting for Student Aid Portion*:

* 1. Item #3: The total amount of Emergency Financial Aid Grants distributed to students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms as of the date of submission (i.e., as of the initial report and every calendar quarter thereafter).
  2. Item #4: The estimated total number of students at the institution that are eligible to receive Emergency Financial Aid Grants to Students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.
  3. Item #5: The total number of students who have received an Emergency Financial Aid Grant to students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.
  4. Item #6: The method(s) used by the institution to determine which students receive Emergency Financial Aid Grants and how much they would receive under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.

In particular, auditors should examine whether the method(s) of distribution reported here are consistent with the method(s) that were actually employed by the institution to distribute emergency financial aid grants to students.

1. **Special Reporting for Federal Funding Accountability and Transparency Act -**See Part 3.L for audit guidance.

*(Source: 2021 OMB Compliance Supplement Part 4,* *ESF Section 2 – Higher Education (Higher Education Emergency Relief Fund (HEERF))*

**CFAE Note:**

In March 2021, the U.S. Department of Education updated its guidance on lost revenue under HEERF. The prior guidance required all lost revenue be supported with allowable expenditures which did not include replacement of revenue. In the updated guidance, which applies retroactively to the beginning of the program, lost revenue was added as one of the allowable uses of all HEERF institutional funds and is applicable to CARES (HEERF I), Consolidated Appropriations Act (HEERF II), and ARP HEERF (HEERF III).

The U.S. Department of Education’s [FAQs](https://www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf) indicate lost revenue evaluations must be associated with the coronavirus pandemic and can be made back to the March 13, 2020 national emergency declaration.

FAQ #2 states that reimbursement for lost revenue is allowable for the Institutional Portion program (assistance listing number 84.425F) and the (a)(2) and (a)(3) programs (assistance listing numbers 84.425J, K, L, M, and N) for HEERF grant funds received under:

* The Coronavirus Aid, Relief, and Economic Security (CARES) Act (HEERF I);
* The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) (HEERF II); and
* The American Rescue Plan (ARP) (HEERF III).

Reimbursement for lost revenue is not an allowable use of funds for the Student Aid Portion program (assistance listing number 84.425E) under HEERF I, HEERF II, or HEERF III or the Proprietary Grant Funds to Students program (assistance listing number 84.425Q), as those grant programs may be used only to provide financial aid grants to students.

FAQ #12 states, the incurring of the “cost” of lost revenue on an institution’s HEERF grant award does not need to be assigned to any costs or expenses that the institution will pay using the amount of lost revenue since the allowable cost in the HEERF grant programs is the reimbursement of the lost revenue itself.

Allowable sources of lost revenue include tuition, room, board, fees, summer camps, bookstore, parking, and various other auxiliary services, to name a few (see FAQ #3). Lost revenue does not have to be associated with, or netted against, expenses and is considered an allowable use (type of expenditure) for quarterly and annual reporting to ED and on the Schedule of Expenditures of Federal Awards (SEFA).

FAQ #9 indicates that institutions who claim students who have dropped classes as lost revenue cannot also provide those same students with tuition reimbursement. Auditors should verify institutions meet these restrictions if lost revenue is claimed.

*(Source: CFAE)*

### Additional Program Specific Information

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

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Reporting_Auditobjectives.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):** |
| **Note for Direct Awards Only**: For recipients using HHS’ Payment Management System (PMS) to draw Federal funds, the auditor should consider the following steps numbered 1 through 4 as they pertain to the cash reporting portion of the SF-425A, regardless of the source of the data included in the PMS reports. (During FY2016, HHS is completing the transition from pooled payment to use of subaccounts.) Although certain data is supplied by the Federal awarding agency (e.g., award authorization amounts) and certain amounts are provided by HHS’ Payment Management Services, the auditor should ensure that such amounts are in agreement with the recipient’s records and are otherwise accurate.  **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Review applicable statutes, regulations, and the terms and conditions of the Federal award pertaining to reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency or pass-through entity, in the case of a subrecipient, instructions for completing the reports.  a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).  b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.  2. Select a sample of reports and perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:  a. Comparing current period reports to prior period reports.  b. Comparing anticipated results to the data included in the reports.  c. Comparing information obtained during the audit of the financial statements to the reports.  3. Select a sample of each of the following report types, and test for accuracy and completeness:  a. *Financial reports*  (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.  (2) Review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).  (3) Trace the amounts reported to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.  (4) For any discrepancies noted in SF-425 reports concerning cash status when the advance payment method is used, review subsequent SF-425 reports to ascertain if the discrepancies were appropriately resolved with the applicable payment system.  b. *Performance and special reports*  (1) Review the supporting records and ascertain if all applicable data elements were included in the sampled reports. Trace the reported data to records that accumulate and summarize data.  (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.  c. Special reports for FFATA  (1) Gain an understanding of the recipient’s methodology used to identify which, if any, awards were subject to the Transparency Act based on inclusion of the award term, the assignment by the federal awarding agency of a new FAIN, the effective date of the reporting requirement, and whether the entity passed funds through to first-tier subrecipients.  (2) Select a sample of first-tier subawards. Obtain related subaward agreements/amendments/modifications and determine if the subaward/subcontract was subject to reporting under the Transparency Act based on (a) the date of the award and (b) the amount of the obligating action for subawards or face value of the first-tier subcontracts (inclusive of modifications).  If the subaward/subcontract was subject to reporting under the Transparency Act:  (a) Using the FAIN, find the award in FSRS.  FSRS is the portal where the recipient enters the award information; it is only accessible by the recipient. Therefore, in order for recipients to demonstrate that information has been properly input, they should coordinate with the auditor regarding the auditor’s review of the information, physically or virtually (e.g. by logging into its FSRS account either in the auditor’s presence or remotely using technology such as screensharing, screenshot evidence, etc.) so that the auditor is able to find the awards in the system as required in this procedure).  (b) Compare the award information accessed in step 2.a to the subaward/subcontract documents maintained by the recipient to assess if—  (i) applicable subaward obligations /modifications have been reported,  (ii) the key data elements (see above) were accurately reported and are supported by the source documentation, and  (iii) the action was reported in FSRS no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.  (c) The auditor must provide the following information for non- compliance finding (s) as the results of step 2.b.  (i) The non-federal entity did not report the subaward information  (ii) The non-federal entity did not report the subaward information timely  (iii) The non-federal entity reported incorrect amount  (iv) The non-federal entity did not report all the key data elements  The following format is recommended to report non-compliance findings and included in the audit report. Data is included for illustration purposes only.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Transactions Tested** | **Subaward not reported** | **Report not timely** | **Subaward amount incorrect** | **Subaward missing key elements** | | 25 | 2 | 10 | 13 | 0 | | **Dollar Amount of Tested Transactions** | **Subaward not reported** | **Report not timely** | **Subaward amount incorrect** | **Subaward missing key elements** | | $5,000,000 | $200,000 | $4,000,000 | $800,000 | $0 |   d. *For each type of report*  (1) When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.  (2) Test mathematical accuracy of reports and supporting worksheets.  4. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the applicable payment system, or pass-through entity in the case of a subrecipient. |

### Audit Implications Summary

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

## Program Testing Conclusion

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

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

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

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

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

**Per paragraph 13.50 of the AICPA 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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