### Allowable Costs – State Public Assistance Agency Costs

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

The 2 CFR Part 200, Appendix VI, paragraph A, states that, since the federally financed programs administered by State public assistance agencies are funded predominantly by HHS, HHS is responsible for the requirements for the development, documentation, submission, negotiation, and approval of public assistance CAPs. These requirements are specified in [45 CFR Part 95, Subpart E](http://ohioauditor.gov/ipa/UniformGuidance/2023/45_CFR_Part_95_Subpart_e.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).

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

1. *Submission Requirements*

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

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 The procedures shown in the existing CAP become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the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

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

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

*(Source: 2023 OMB Compliance Supplement Part 3)*

#### Audit Objectives and Control Testing - Allowable Costs - State Public Assistance Agency Costs

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

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether the governmental unit complied with the provisions of 2 CFR Part 200 as follows:
   1. Direct charges to Federal awards were for allowable costs.
   2. Charges to cost pools allocated to federal awards through the public assistance CAP were for allowable costs.
   3. The approved public assistance CAP correctly describes the actual procedures used to identify, measure, and allocate costs to each of the programs operated by the State public assistance agency. However, the actual procedures or methods of allocating costs must be in accordance with the cost principles, and produce an equitable and consistent distribution of costs.
   4. Charges to federal awards are in accordance with the approved public assistance CAP. This does not apply if the auditor first determines that the approved CAP is not in compliance with the cost principles and/or produces an inequitable distribution of costs.
   5. The employee compensation reporting systems are implemented and operated in accordance with the methodologies described in the approved public assistance CAP.

*(Source: 2023 OMB Compliance Supplement Part 3)*

**Control Documentation and Testing**

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| *Auditors should clearly document what control procedures address the compliance requirement. Reference or link to documentation or where testing was performed.*  **Basis for the control** *(Ex. reports, resources, etc. providing information needed to understand requirements and prevent or identify and correct errors)*:  **Control Procedure** *(Description of how auditee uses the “Basis” to prevent, or identify and correct 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 Substantive Audit Procedures – Compliance – State Public Assistance Agency Costs

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| Consider the results of control testing above in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.  *(Source: 2023 OMB Compliance Supplement Part 3)*  *This section may be applicable at the local level if local entities perform procedures to support the State compliance (May occur with JFS programs)*  a. Since a significant amount of the costs in the public assistance CAP are allocated based on employee compensation reporting systems, it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.  b. *General Audit Procedures* – The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of 2 CFR 200.402 - 200.411.  (b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 200.420 - 200.476).  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for Public Assistance CAPs*  (1) Verify that the State public assistance agency is complying with the submission requirements, i.e., an amendment is promptly submitted when any of the events identified in [45 CFR 95.509](http://ohioauditor.gov/ipa/UniformGuidance/2023/45_CFR_Part_95_Subpart_e.pdf) occur.  (2) Verify that public assistance CAP includes the required documentation in accordance with [45 CFR 95.507](http://ohioauditor.gov/ipa/UniformGuidance/2023/45_CFR_Part_95_Subpart_e.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.  *Auditors must include results of this testing in the Section B - Audit Implications Summary of the FACCR.* |