**LOCAL GOVERNMENT AGENCY**

**FEDERAL AWARD COMPLIANCE CONTROL RECORD**[[1]](#footnote-1)

|  |  |
| --- | --- |
| **NAME OF CLIENT:** |  |
| **YEAR ENDED:** | 2018 |

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Capitalization Grants for Drinking Water State Revolving Funds |
| **CFDA#:** | 66.468 |

**NOTE:**

* + **This FACCR was written for funds that passed through the Ohio Environmental Protection Agency (Ohio EPA) and does not include ARRA requirements. The administrative requirements & cost principles of the new Uniform Guidance do not apply, however; the audit requirements do apply.**
  + **You must document in your w/p’s how the determination was made that this major program fell under the old OMB Circulars (A-87 & A-102), as opposed to the new Uniform Grants Guidance.**
  + **The AICPA Government Auditing Standards & Single Audit Guide, paragraphs 11.136 through 11.137 state that a separate sample for pre-UG award transactions and post-UG award transactions within a major program would not typically be needed. If your samples selected include ANY expenditure that falls under the administrative requirements & cost principles of the UG, contact CFAE regarding an additional UG FACCR to test those expenditures.**
  + **Per the 2018 AIPCA Government Auditing Standards and Single Audit Guide Preface, for guidance performing audits under OMB Circular A-133 the 2015 edition of the Guide should be referred to. Therefore, those references are used throughout the FACCR.**
  + **This program is clustered this program with CFDA 66.483, Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Capitalization Grants for Drinking Water State Revolving Funds. However, Ohio was not listed as state receiving these funds and therefore, 66.483 will not be included in this FACCR. If you have an entity that received funds under 66.483, please contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov) **for instructions.**
  + **The projects selected in the “Single Audit SEFA 2018 Completeness Guide” located at** [**http://www.ohioauditor.gov/references/practiceaids.html**](http://www.ohioauditor.gov/references/practiceaids.html) **are the minimum reporting requirement for these entities. If a selected entity chooses to report all their federal projects, we would not need to have any adjustments or citations.**
  + **These programs are federal grants, not loan programs. See SEFA Guidance in the “Single Audit SEFA 2018 Completeness Guide” located at** [**http://www.ohioauditor.gov/references/practiceaids.html**](http://www.ohioauditor.gov/references/practiceaids.html) **for additional reporting information.**

Update yellow highlighted items based on specific program/grant.

Grey highlighted information was obtained from the pass through agency, the Ohio EPA and Ohio Water Development Authority (OWDA)

Orange highlighted text is additional information from AOS Center for Audit Excellence (CFAE)

|  |  |  |  |
| --- | --- | --- | --- |
| Prepared by AA |  | Date |  |
| Reviewed by AM |  | Date |  |
| Reviewed by SAM |  | Date |  |

*(NOTE: The above sign-off boxes are n/a to AOS audits completed in Teammate. AOS auditors should perform their sign-offs in the Teammate system.)*

Updated March 2019

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

**(1)** Taken from Part 2, Matrix of Compliance Requirements, of the OMB Compliance Supplement (<https://www.whitehouse.gov/omb/information-for-agencies/circulars/>). 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 2015 AICPA Audit Guide Government Auditing Standards and Circular A-133 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 2015 AICPA Audit Guide Government Auditing Standards and Circular A-133 Audits, chapter 9, "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 Statement on Auditing Standards No. 117, Compliance Audits (AICPA, Professional Standards, vol. 1, AU sec. 801 / 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.

**(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. 2015 AICPA A-133 Guide 10.49 states the auditor's tests of compliance with compliance requirements may disclose instances of noncompliance. Circular A-133 refers to these instances of noncompliance, among other matters, as “findings.” Such findings may be of a monetary nature and involve questioned costs or may be nonmonetary and not result in questioned costs. AU 801 / 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 PROGRAM LEVEL materiality is documented in the Record of Single Audit Risk (RSAR); and (2) a second materiality level for the each of the applicable 12 compliance requirement listed in Appendix XI to Part 200. The columns above documents quantitative materiality at the COMPLIANCE REQUIREMENT LEVEL for each major program.

*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)

**The A-102 Common Rule**

A-102 Common Rule applies to State & Local Governments; A-110 (2 CFR Part 215) applies to Universities & Non-Profit Organizations.

Use the following convention to refer to the federal agency codification of the A-102 Common Rule: (A-102 Common Rule: §\_\_\_.36). Auditors should replace the “§\_\_\_” with the applicable numeric reference.

**Appendix II of the OMB Compliance Supplement identifies each agency’s codification of the A-102 Common Rule. If a citation is warranted, auditors should look up where the federal awarding agency codified the A-102 Common Rule. For example, a Cash Management citation for a U.S. Department of Education grant would cite 34 CFR 80.21 (34 CFR 80 coming from Appendix II of the OMB Compliance Supplement, and .21 coming from Section C below, Source of Governing Requirements for A-102 Common Rule entities.** There are other “sources of governing requirements” noted in each section as well, this is just an explanation for the A-102 Common Rule references.

Appendix I of the OMB Compliance Supplement includes a list of programs excluded from the requirements of the A-102 Common Rule.

(Source: AOS CFAE)

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

|  |
| --- |
| **Cross-reference to significant compliance requirements obtained from reviewing the grant agreement; terms and conditions; etc. , if any, added to and documented within the FACCR by auditor (Note: Audit staff should document these items within the appropriate FACCR section for the 12 compliance requirements. Likewise, auditors should indicate below if there were no additional significant compliance requirements to be added to the FACCR.):** |
|  |

|  |
| --- |
| **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:** |
|  |

|  |
| --- |
| **Cross-reference to any Management Letter items and explain why not included in the Single Audit Report:** |
| Per paragraph 13.38 of the 2015 AICPA Audit Guide, *Government Auditing Standards and Circular A-133 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:   * Significant deficiencies or material weaknesses in internal control over major programs * Material noncompliance with the laws, regulations, and provisions of contracts and grant agreements 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 should 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 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 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. * Instances in which the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with 2 CFR Section 200.511(b) materially misrepresents the status of any prior audit finding.   Per paragraph 13.44 of the 2015 AICPA Audit Guide, *Government Auditing Standards and Circular A-133 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 schedule of findings and questioned costs should include all audit findings required to be reported under Single Audit requirements. 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 Single Audit guidance. See the discussion beginning at paragraph 13.33 for information on Single Audit requirements for the schedule of findings and questioned costs. If there are other matters that do not meet the Single Audit 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 Single Audit 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. * That does not meet the criteria for reporting under Single Audit requirements but, in the auditor's judgment, is of sufficient importance to communicate to management or those charged with governance. * That is less than material to a major program and not otherwise required to be reported but that, in the auditor's judgment, is of sufficient importance to communicate to the auditee * 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.   Management Letter items and reasons why not reported in the Single Audit Report: |

|  |
| --- |
| **Note to Preparer:**  Provide general program information to help document a basic understanding of the program. Also, document the governing regulations applicable to the program. Obtain this information from Part 4 of the OMB Compliance Supplement, the CFDA Catalog, the grant application, and other grantor provided documents. Add additional categories as is appropriate. Do not reproduce vast portion of these documents; however, this information is intended to provide auditors with a general understanding of the program. If additional information is desired or needed, auditors can refer to the referenced grant documents.  (Source: AOS CFAE) |

|  |
| --- |
| ***Performing Tests to Evaluate the Effectiveness of Controls throughout this FACCR***  Auditors should consider the following when evaluating, documenting, and testing the effectiveness of controls throughout this FACCR:  As noted in paragraph 9.03 of the 2015 A-133 Guide, Circular A-133 states that the auditors should perform tests of internal controls over compliance as planned. (Paragraphs 9.27—.29 of the 2015 *AICPA Government Auditing Standards and Circular A-133 Guide* discuss an exception related to ineffective internal control over compliance.) In addition, paragraph .08 of AU-C section 330 states that the auditor should perform tests of controls when the auditor's risk assessment includes an expectation of the operating effectiveness of control. Testing of the operating effectiveness of controls ordinarily includes procedures such as (a) inquiries of appropriate entity personnel, including grant and contract managers; (b) the inspection of documents, reports, or electronic files indicating performance of the control; (c) the observation of the application of the specific controls; and (d) reperformance of the application of the control by the auditor. The auditor should perform such procedures regardless of whether he or she would otherwise choose to obtain evidence to support an assessment of control risk below the maximum level.  Paragraph .A24 of AU-C section 330 provides guidance related to the testing of controls. When responding to the risk assessment, the auditor may design a test of controls to be performed concurrently with a test of details on the same transactions. Although the purpose of a test of controls is different from the purpose of a test of details, both may be accomplished concurrently by performing a test of controls and a test of details on the same transaction (a dual-purpose test). For example, the auditor may examine an invoice to determine whether it has been approved and whether it provides substantive evidence of a transaction. A dual purpose test is designed and evaluated by considering each purpose of the test separately.9 Also, when performing the tests, the auditor should consider how the outcome of the test of controls may affect the auditor's determination about the extent of substantive procedures to be performed. See chapter 11 of this guide for a discussion of the use of dual purpose samples in a compliance audit.  (Source: Paragraphs 9.31 and 9.33 of the 2015 *AICPA Government Auditing Standards and Circular A-133 Guide*) |

|  |
| --- |
| **I. Program Objectives** |
| Capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Funds (DWSRF) programs. States can use capitalization grant funds to establish a revolving loan fund (DWSRF) to assist public water systems finance the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act (SDWA) requirements and protect the public health objectives of the Act. The DWSRF can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. States may also set aside certain percentages of their capitalization grant or allotment for various activities that promote source water protection and enhanced water systems management.  (Source: 2017 OMB Compliance Supplement, Part 4, 66.468 Capitalization Grants for Drinking Water State Revolving Funds) |
| **II. Program Procedures** |
| The DWSRF program is established in each State by capitalization grants from the Environmental Protection Agency (EPA) and State match equaling 20 percent of the EPA capitalization grants. EPA implements the DWSRF program in a manner that preserves flexibility for States in operating their program in accordance with their unique needs and circumstances. States have the flexibility to set aside up to 31 percent of their capitalization grants for other related activities. States may also transfer an amount up to 33 percent of its DWSRF capitalization grant to the Clean Water State Revolving Fund (CWSRF) (CFDA66.458) or an equivalent amount from the CWSRF to the DWSRF program. A State may transfer capitalization grant dollars, State match, investment earnings, or principal and interest repayments.  Capitalization grant agreements include (1) an application; (2) an Intended Use Plan (IUP), which describes how the State intends to use funds made available to it, including a list of proposed projects eligible for financing and a description of the financial status of the program; (3) a proposed payment schedule; (4) certain certifications and demonstrations which can be included in an optional operating agreement; and (5) workplans containing a least a general description of the use of set-aside funds.  The State must annually provide an IUP which describes how the State will use available DWSRF program funds for the year to meet the objectives of the SDWA and further the goal of protecting public health. The IUP explains how all of the funds available to the DWSRF program (including bond proceeds, interest earnings, loan repayments, Federal capitalization grants, State match, etc.) will be expended (40 CFR section 35.3555).  EPA conducts Annual Review of State programs to assess the success of each program.  (Source: 2017 OMB Compliance Supplement, Part 4, 66.468 Capitalization Grants for Drinking Water State Revolving Funds) |
| **III. Program Specific Information** |
| ***OHIO EPA AND OWDA PROGRAM SPECIFIC INFORMATION***  The Drinking Water Assistance Fund: Water Supply Revolving Loan Account program provides financing for public water system improvement to achieve and maintain compliance with Safe Drinking Water Act requirements, and is administered under [Section 6109.22](http://codes.ohio.gov/orc/6109.22)(H) of the Ohio Revised Code which is a part of the legislation enabling the Drinking Water Assistance Fund.  The Water Supply Revolving Loan Account offers economically disadvantaged systems additional financial subsidy to reduce the principal of loans. The rules for this assistance are at Ohio Administrative Code 3745-88.  (Source: [OWDA Program Guidelines](OWDA_Notes_WSRLA-DWAF_2015Jan.pdf); [OEPA Website](http://www.epa.state.oh.us/Default.aspx?tabid=2194); Ohio Revised Code: [Section 6109.22](http://codes.ohio.gov/orc/6109.22); and OWDA Resolution 51-98, Resolution 57-02, Motion July 29, 2010, and Motion July 25, 2012; Motion January 29, 2015)  Public water systems (PWS) are regulated by the Ohio Environmental Protection Agency, Division of Drinking and Ground Waters (Ohio EPA DDAGW). Public water systems use either a ground water source or a surface water source, including ground water under the direct influence of surface water source. In Ohio, around 4,800 public water systems serve approximately 11 million people daily.  Public water systems are required to monitor their water regularly for contaminants.  Currently, over 95% of community water systems meet all health-based standards.  When a system does not meet a standard, consumers are notified.  A public water system is defined as a system that provides water for human consumption to at least 15 service connections or serves an average of at least 25 people for at least 60 days each year. This includes water used for drinking, food preparation, bathing, showering, tooth brushing and dishwashing. Public water systems range in size from large municipalities to small churches and restaurants that rely on a single well. There are three types of public water systems:   * **Community water systems** serve at least 15 service connections used by year-round residents or regularly serve at least 25 year-round residents. Examples include cities, mobile home parks and nursing homes.      * **Non-transient non-community systems** serve at least 25 of the same persons over six months per year. Examples include schools, hospitals and factories.      * **Transient non-community systems** serve at least 25 different persons over 60 days per year. Examples include campgrounds, restaurants and gas stations. In addition, drinking water systems associated with agricultural migrant labor camps, as defined by the Ohio Department of Agriculture, are regulated even though they may not meet the minimum number of people or service connections.   (Source: [OEPA Website](http://www.epa.state.oh.us/ddagw/pws/tabid/5800/LiveTabId/113437/Default.aspx) - and ‘basics” tab on webpage)  For PY 2017 and 2018, the DWAF will be composted of five accounts used to provide assistance to accomplish its goals:  1. The Water Supply Revolving Loan Account (WSRLA) provides financial assistance for the planning, design, and construction of improvements to community water systems, and nonprofit non-community public water systems. The assistance is in the form of below‐market interest rates for compliance‐related improvements to public water systems. (p.10)  2. The Drinking Water Assistance Administrative Account (DWAFAA) will be used to ensure the long‐term administration of the program by funding Ohio EPA personnel including management of the DWAF and district office coordinators. (2018 p.10 & 20, 2019 p.10 & 21)  3. The Small Systems Technical Assistance Account funds technical and managerial assistance for public water systems serving 10,000 or fewer in population. Assistance from this fund will also be provided to WSRLA applicants for completing the documentation necessary to obtain financial assistance, and documents necessary for the Capability Assurance program. This assistance will be provided through a combination of outsourcing to qualified organizations and Ohio EPA staff support. (2018 p.10 &20, 2019 p.10 & 21)  4. The Public Water Systems Supervision (PWSS) Accountfunds a variety of activities to help ensure Ohio’s public water systems provide adequate quantities of safe drinking water and on-going implementation of Ohio’s Source Water Protection and Capability Assurance Programs. (2018 p.10 & 21, 2019 p.10 & 22)  5. 2018:  The Local Assistance and Other State Program Account funds technical assistance to public water systems using surface water to help prevent impacts from harmful algal blooms (cyanobacteria). (p.10 & 21)  2019:  Ohio EPA will take $1,257,075 (approximately 4.5%) of the local assistance and other state programs  set‐aside (Appendix J) authorized under Section 1452(k)(1)(B) of the SDWA from federal capitalization  grants. Ohio EPA will be using this for further development of the capability assurance program. (p.10 & 22)  (Source: [DWAF Final 2018 Program Management and Intended Use Plan (7/1/17-6/30/18)](OEPA_WSRLA_PMP_2018_FINAL.pdf) Pages 10-21 and [DWAF Final 2019 Program Management and Intended Use Plan (7/1/18-6/30/19)](OEPA_DWAF_PMP_2019_Final.pdf) Pages 10-22.)  Interest rates are based on the term of the loan, size of the service area and the affordability needs of the water system users. Long-term (currently up to 20 years) interest rates are established monthly at both a standard rate and a small systems rate. WSRLA loans to small systems which receive priority points for affordability will have a 2 percent interest rate (or the small system rate if it is less than two percent during the month of loan award). The short-term (up to five years) interest rate is established monthly.  (Source: [WSRLA Fact Sheet](OEPA_WSRLAFactSheet.pdf))  **WSRLA Interest Rates**  2. Standard Long Term Interest Rate (Amortization period of at least five years but not more than 20 years)  Standard long-term interest rate will be established based on an eight week daily average of the Municipal Market Data (MMD) Index. The MMD benchmark will be established by taking the 20 year AA general obligation MMD Index and adding 30 basis points. The standard long-term interest rate will be determined by taking the MMD benchmark and subtracting 125 basis points. In no case, however, can the standard long term rate be less than 0.50 percent.  3. Small System Long Term Interest Rate (Amortization period of at least five years but not more than 20 years)  The small system long term interest rate will be based upon the standard long term interest rate. As the standard long term interest rate is established, the small system long term interest rate is determined by subtracting 50 basis points from that rate. In no case, however, can the small system long term rate be less than 0.00 percent.  4. Systems that Receive Affordability Points Long Term Interest Rate (Amortization period of at least five years but not more than 20 years)  The interest rate for systems that receive affordability ranking points is 2%. Only projects that receive priority points under the affordability factor in the ranking system qualify for this rate. If at the month of loan award, the small system rate is less than 2 percent, during that month all qualified eligible projects for the affordability rate will be awarded the project loan at the small system rate.  5. Short Term Interest Rate (Amortization period of five years or less)  The short‐term interest rate for a planning loan is zero percent for a term of five years or less. The short‐term interest rate for a design loan is the same as the long‐term interest rate for the same project with amortization periods of five years or less.  6. Linked Deposit Interest Rate  The linked deposit rate will vary, as it is determined by a commercial lender based upon its usual rates to its customers. It is used at the discretion of Ohio EPA and may be applied where the applicant is a private entity or where the applicant’s ability to repay or its security varies significantly from the norm of a WSRLA applicant.  Under certain circumstances, the WSRLA can provide interest savings to a recipient by negotiating with a lending institution for a reduced interest rate on WSRLA funds placed on deposit, usually a certificate of deposit. The reduced interest rate paid to the WSRLA is then passed on to the borrower. The loan is made by the lending institution.  The interest rate charged by the bank for the loan will be discounted below the bank’s normal interest rate by an amount equal to the difference between the U.S. Treasury Note and Bond interest rate\* and the WSRLA linked deposit interest rate. The WSRLA linked deposit interest rate will be at least 300 basis points less than the reported Treasury Notes and Bonds yield.  \*As reported in The Bond Buyer on the Friday of the preceding week, for notes and bonds with a term of years closest to the term of the applicant’s loan.  7. Supplemental Loan Interest Rate (Amortization period of at least five years but not more than 20)  Supplemental loans will be awarded at the appropriate interest rate in effect at the time of the loan award.  (Source: [DWAF Final 2018 Program Management and Intended Use Plan (7/1/17-6/30/18)](OEPA_WSRLA_PMP_2018_FINAL.pdf) Appendix E and [DWAF Final 2019 Program Management and Intended Use Plan (7/1/18-6/30/19)](OEPA_DWAF_PMP_2019_Final.pdf) Appendix E)  **WSRLA Interest Rate Structure**  The WSRLA will offer six different interest rates in the program year:  - a standard rate for long-term loans (longer than five years but not more than twenty)  - a small system rate for long-term loans (longer than five years but not more than twenty)  - a system rate for long-term loans that receive affordability criteria priority points through PPL Ranking System (longer than five years but not longer than twenty)  - a short-term rate for loans including planning/design (five years or less)  - a linked deposit rate  - a supplemental loan interest rate (longer than five years but not more than twenty)  (Source: Rebecca McKinney, OEPA, 2/6/2019) |
| **IV. Source of Governing Requirements (CFR, USC, grantor manual section, etc.)** |
| This program is authorized under Section 1452 of the Public Health Service Act (Title XIV), commonly known as the SDWA (42 USC 300j-12) and the Disaster Relief Appropriations Act, 2013 (Pub. L. No. 113-2). The implementing regulations for the program can be found at 40 CFR part 35, subpart L.  **Availability of Other Program Information**  Other general information about the program is available on the EPA Drinking Water State Revolving Fund home page (<https://www.epa.gov/drinkingwatersrf>).  (Source: 2017 OMB Compliance Supplement, Part 4, 66.468 Capitalization Grants for Drinking Water State Revolving Funds)  Additional Guidance:  OMB Compliance Supplements:  <http://www.whitehouse.gov/omb/financial_fin_single_audit/>  OEPA and OWDA Guidance:  OWDA Home Page containing links to program guidelines:  <http://www.owda.org/>  OWDA “Your Loan” – a Listing by Borrower of all Loan Activity for each project: <http://loans.owda.org/>  Ohio EPA Office of Financial Assistance website: <https://epa.ohio.gov/defa/ofa> |
| **V. Reporting in the Schedule of Expenditures of Federal Awards** |
| For program specific guidance, see additional SEFA Guidance in the “Single Audit SEFA 2018 Completeness Guide” located at <http://www.ohioauditor.gov/references/practiceaids.html>.  *(Source: AOS CFAE)*  The auditee must prepare a schedule of expenditures of Federal awards for the period covered by their financial statements, which must include the total Federal awards expended as determined in accordance with 2 CFR §200.502.  While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately.  At a minimum, the schedule must:  - List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.  - For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.  - Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.  - Include the total amount provided to subrecipients from each Federal program.  - For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule. |
| **VI. Improper Payments** |
| Under OMB guidance, Public Law (Pub. L.) No. 107-300, the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204, the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments, and the June 18, 2010 Presidential memorandum to enhance payment accuracy, Federal agencies are required to take actions to prevent improper payments, review Federal awards for such payments, and, as applicable, reclaim improper payments. Improper payments include for following:  1. Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. , such as overpayments or underpayments made to eligible recipients resulting from inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments.   1. Any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments where authorized by statute). 2. Any payment that an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.   **Auditors should be alert to improper payments, particularly when testing the following parts - A, “Activities Allowed or Unallowed;” B, “Allowable Costs/Cost Principles;” E, “Eligibility;” and, in some cases, N, “Special Tests and Provisions.”**  (Source: 2017 OMB Compliance Supplement, Part 3.1) |

| **A. Activities Allowed or Unallowed** | |
| --- | --- |
| **Audit Objectives** | |
| 1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). 2. Determine whether Federal awards were expended only for allowable activities. | |
| **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 A-87’s (codified in 2 CFR Part 225) allowable cost guidelines. 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 A-87 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 A-87 to determine if pension costs (an object cost classification) are permissible. (A-87, Appendix B states they are allowable, with restrictions, so we would need to determine if the auditee met the restrictions.) Both the client and we should look at A-87 even if the grant agreement includes a budget by object code approved by the grantor agency.  (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 contract or grant agreements pertaining to the program. For programs listed in the OMB Compliance 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 legislationFederal awarding agency regulations, and the terms and conditions of the award.  (Source: 2017 OMB Compliance Supplement, Part 3.1)  **Program Specific Requirements**  1. The DWSRF program may provide the following financial assistance to publicly or privately owned community water systems and non-profit non-community water systems for eligible drinking water infrastructure projects (40 CFR sections 35.3520 and 35.3525):  a. Making loans for eligible projects (40 CFR section 35.3520(b).  b. Purchasing or refinancing existing debt obligations of municipal, intermunicipal and interstate agencies entered into on or after July 1, 1993.  c. Guarantee of or purchasing insurance for local debt obligations.  d. Providing a source of revenue or security for DWSRF debt obligations, provided that the net proceeds of the sale of such debt obligations are deposited in the DWSRF.  e. Funds awarded under CFDA 66.483 may be used only for projects to reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic change or a natural disaster (Pub. L. No. 113-2, Division A, Title X, 127 Stat. 31).  2. A State may set aside funds for the following designated set-aside activities (40 CFR section 35.3535):  a. Administrative expenses (including technical assistance).  b. Technical assistance to small water systems that regularly serve 10,000 or fewer persons (40 CFR section 35.3505).  c. State program management.  d. Local assistance and other State programs.  3. The DWSRF may not provide assistance for (40 CFR sections 35.3520(d) through (f)):  a. Dams or reservoirs, water rights, laboratory fees for monitoring, system operation and maintenance, or projects that are primarily fire protection.  b. Expansion projects pursued solely in anticipation of future growth.  (Source: 2017 OMB Compliance Supplement, Part 4, 66.468 Capitalization Grants for Drinking Water State Revolving Funds)  **Additional Program Specific Requirements**  DWSRF programs are required to verify all loan payments and construction reimbursements are for eligible program costs only. The general process for approving an SRF loan disbursement at the state-level requires an initial review of all invoices and accompanying documentation. After the State program officials check to ensure the disbursement request is for an active borrower, an active project, and that the borrower is not in significant noncompliance, the program staff must verify the funds requested are within the limits set according to the loan agreement. If the level of detail contained within an individual disbursement request is insufficient to allow state staff to verify the release of SRF funds, programs may request the applicant to submit additional documentation.  (Source: [USEPA Program Operation Manual](https://nepis.epa.gov/Exe/ZyPDF.cgi?Dockey=P1007ZKN.txt) - Section 3.13.3)  ***OEPA and OWDA Program Specific Guidance***  Ohio EPA and OWDA jointly administer this program and oversee program disbursements.  **Allowable Costs**  Ohio EPA will accept as allowable only costs for facilities and components necessary to the proper function and/or capital costs directly resulting in improved operation and maintenance of the water system. This determination will be made during the review of general and detailed plans and specifications. (2017 p.12; 2018 p.15)  **Unallowable Costs (Appendix C)**  Ineligible Projects  1. Construction or rehabilitation of dams;  2. Purchase of water rights, unless 1) the water rights are owned by a system that is being purchased through consolidation as a part of a capacity assurance strategy; or, 2) it is necessary to acquire land or a conservation easement from a willing seller or grantor, if the purpose of the acquisition is to protect the source water of the system from contamination and to ensure compliance with National Primary Drinking Water Regulations (Section 1452(k) of SDWA);  3. Construction or rehabilitation of reservoirs, except for finished water reservoirs and those reservoirs that are part of the treatment process and are located on the property where the water treatment facility is located;  4. Projects needed primarily for fire protection;  5. Projects needed primarily to serve future population growth;  6. Projects for systems in significant noncompliance (U.S. EPA Enforcement Tracking Tool (ETT) score greater than or equal to 11), where funding will not enable the system to return to compliance and the system will not maintain adequate technical, managerial and financial capacity to maintain compliance (refer to capacity assurance plan);  7. Projects for systems that lack technical, managerial, and financial capability, unless assistance will ensure compliance (refer to capacity assurance plan);  8. Projects that do not minimize costs by implementing the most cost effective alternative through conducting a cost effective analysis of all viable options; cost effectiveness considers both monetary and non‐monetary costs;  9. Projects that have completed construction; and  10. Projects that have secured their entire funding outside of WSRLA funds, Ohio Water Development Authority loans, a private short‐term loan or the entity’s own funds.  Ineligible Costs  1. Laboratory fees for monitoring;  2. Operation and maintenance expenses;  3. Equipment, materials, supplies, and spare parts in excess of that shown to be reasonable, necessary, and applicable to the project;  4. Street restoration beyond that necessary for installing facilities directly related to constructing the drinking water system;  5. Ordinary governmental or personal operating expenses of the community or individual requesting the WSRLA assistance (e.g., administrative facilities or vehicles, salaries of elected officials, travel, costs of establishing departments or units of government, fines, and penalties levied by regulatory agencies, etc.);  6. Personal injury compensation or damages;  7. Permit costs, including water discharge permit (NPDES permit) and renewal discharge permit fees, and application fees, (excluding the origination fees associated with the project for which state revolving loan monies are requested)  (Source: [DWAF Final 2018 Program Management and Intended Use Plan (7/1/17-6/30/18)](OEPA_WSRLA_PMP_2018_FINAL.pdf) and [DWAF Final 2019 Program Management and Intended Use Plan (7/1/18-6/30/19)](OEPA_DWAF_PMP_2019_Final.pdf))  **Loan Disbursement Procedures**  These procedures are applicable for all loans approved by the Ohio Water Development Authority.  Complete payment instructions should have been included as part of the loan application. In the event these were incomplete, an LGA Payment Instruction Form must be submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement. A copy of this form specific to your project will need to be requested from OWDA.    For contractors receiving payments directly from OWDA, a Contractor Payment Instruction Form must be completed by the contractor and submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement to the contractor.  Each reimbursement request should be sent to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215, and must include the following items:   * A completed on-line fund payment request form with original signature from the LGA summarizing the invoices and amounts requested. This form is completed on-line, printed, signed and submitted with the items listed below. * A copy of each invoice listed on the on-line fund payment request form. * A completed OWDA’s Contractor’s Estimate form and a detailed schedule of values for each contractor invoice listed on the on-line fund payment request form. The Contractor Estimate form must include original signatures by the LGA, engineer, and the contractor. All estimates must be numbered and must be submitted in numerical order. A contractor’s estimate form is not required for non-contractor line item requests.   All reimbursement requests are processed in the order they are received. Once a week, OWDA will submit completed vouchers to banks for processing. OWDA’s banks will then process either a check or transfer the funds via federal wire.  (Source: [OWDA Disbursement Procedures](http://www.owda.org/disbursement-forms) included under “Loan Info” on the [OWDA website](https://www.owda.org/default.aspx))  **Change Order Procedures**   * The [DWAF Change Order form](http://www.owda.org/owda-doc/loan%20info/ChangeOrderWPCLF.pdf) must be used.  Please contact your DDAGW project engineer for specific DEFA change order approval requirements. * DEFA will transmit approved change orders to OWDA for further processing. * OWDA will return fully executed change orders to the LGA. * Change orders must be submitted in numerical sequence and cannot appear on the Contractor’s Estimate until after approval by DEFA   (Source: [OWDA Disbursement Procedures](http://www.owda.org/disbursement-forms) included under “Loan Info” on the [OWDA website](https://www.owda.org/default.aspx))  **Release of Retainer Funds**  Recipients must submit a Release of Retainer Form for disbursement of contractor retainage money to the LGA.  (Source: [OWDA Disbursement Procedures](http://www.owda.org/disbursement-forms) included under “Loan Info” on the [OWDA website](https://www.owda.org/default.aspx))  The grant application, agreement, or policies may contain the specific requirements for activities allowed or unallowed.  (Source: ) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Activities Allowed or Unallowed and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| Note: 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 (and document) the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. 2. When allowability is determined based upon summary level data (voucher summaries, etc.), perform procedures to verify that:    1. Activities were allowable.    2. 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 (vouch, scan, etc.) 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 (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, and management letter comments)** | |
| **A. Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)**  **B. Assessment of Control Risk:**  **C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**  **D. Results of Compliance (Substantive Tests) Tests:**  **E. Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** | |

| **B. Allowable Costs / Cost Principles** | |
| --- | --- |
| **Introduction** | |
| The following OMB cost principles circulars prescribe the cost accounting policies associated with the administration of Federal awards by (1) States, local governments, and Indian tribal governments (State rules for expenditures of State funds apply for block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and for other programs specified on Appendix I); (2) institutions of higher education; and (3) non-profit organizations. Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from OMB’s cost principles circulars, but are subject to requirements promulgated by the sponsoring Federal agencies (e.g., the Department of Health and Human Services’ 45 CFR part 74, Appendix E). 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 Government, or indirectly through a pass-through entity. The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates (e.g., methodologies used to recover facilities and administrative costs (F&A) at institutions of higher education). Federal awards include Federal programs and cost-type contracts and may be in the form of grants, contracts, and other agreements.  The three cost principles circulars are as follows:   * **OMB Circular A-87 OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments” (2 CFR part 225)** * **OMB Circular A-21, “Cost Principles for Educational Institutions.” (2 CFR part 220)** - All institutions of higher education are subject to the cost principles contained in OMB Circular A-21, which incorporates the four Cost Accounting Standards Board (CASB) Standards and the Disclosure Statement (DS-2) requirements as described in OMB Circular A-21, sections C.10 through C.14 and Appendices A and B. * **OMB Circular A-122, “Cost Principles for Non-Profit Organizations.” (2 CFR part 230)** - Non-profit organizations are subject to OMB Circular A-122, except those non-profit organizations listed in OMB Circular A-122, Appendix C that are subject to the commercial cost principles contained in the Federal Acquisition Regulation (FAR). Also, by contract terms and conditions, some non-profit organizations may be subject to the CASB’s Standards and the Disclosure Statement (DS-1) requirements.   Although these cost principles circulars have been reissued in Title 2 of the CFR for ease of access, the OMB Circular A-133 Compliance Supplement refers to them by the circular title and numbering. However, auditors should use the authoritative reference of 2 CFR Part 225 … when citing noncompliance.  The cost principles articulated in the three OMB cost principles circulars are, in most cases, substantially identical, but a few differences do exist. These differences are necessary because of the nature of the Federal/State/local/non-profit organizational structures, programs administered, and breadth of services offered by some grantees and not others. Exhibit 1 of Part 3 of the OMB Circular A-133 Compliance Supplement, Selected Items of Cost (included in at the end of Part B to this FACCR), lists the treatment of the selected cost items in the different circulars.   |  | | --- | | **Note: This FACCR is designed for State and Local Governments (based on the requirements of OMB Circular A-87). If you are performing a Single Audit for a Higher Educational Institution or a Non-Profit Organization, you will need to update the guidance contained within this FACCR in accordance with the applicable cost principle circular.**  (Source: AOS CFAE) |  |  | | --- | | Important Note: For a cost to be allowable, it must (1) be for a purpose the specific award permits and (2) fall within A-87’s (codified in 2 CFR Part 225) allowable cost guidelines. 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 A-87 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 A-87 to determine if pension costs (an object cost classification) are permissible. (A-87, Appendix B states they are allowable, with restrictions, so we would need to determine if the auditee met the restrictions.) Both the client and we should look at A-87 even if the grant agreement includes a budget by object code approved by the grantor agency.  (Source: AOS CFAE) |   **2 CFR PART 225/OBM Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments***  2 CFR part 225/OBM Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect for Federal awards. This part is organized in to the following areas of allowable costs: State/Local-Wide Central Service Costs; State/Local Department or Agency Costs (Direct and Indirect); and State Public Assistance Agency Costs.  ***Cognizant Agency***  A-87, Appendix A, paragraph B.6. defines “cognizant agency” as the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under A-87 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies (*Federal Register*, 51 FR 552, January 6, 1986). This listing is available at  <http://www.whitehouse.gov/sites/default/files/omb/assets/financial_pdf/fr-notice_cost_negotiation_010686.pdf>. References to the “cognizant agency” in this section are not equivalent to the cognizant Federal agency for audit responsibilities, which is defined in 2 CFR section 200.18.  ***Availability of Other Information***  Additional information on cost allocation plans and indirect cost rates is found in the Department of Health and Human Services (HHS) publications: *A Guide for State, Local, and Indian Tribal Governments (ASMB C-10); Review Guide for State and Local Governments, State/Local-Wide Central Service Cost Allocation Plans, and Indirect Cost Rates;* and the *DCA Best Practices Manual for Reviewing Public Assistance Cost Allocation Plans* which are available at <https://rates.psc.gov/fms/dca/pa.html> .  (Source: 2017 OMB Compliance Supplement, Part 3.1)  Indirect Costs Include:   * Costs originating at the ***State or Local-Wide*** level, such as: Personnel, Budgeting, Data Center, Accounting, Treasurer, Auditor (e.g., audit costs, county auditor preparation of SEFA) * Costs originating at the ***Departmental*** level, such as: Director/Asst. Director’s Compensation, Secretaries, Space, Supplies (e.g., Dir.’s compensation for the Community & Economic Dev. Dept.) * Costs originating at the ***Divisional*** level, such as: Director/Asst. Director’s Compensation, Secretaries, Space, Supplies (e.g., Asst. Dir.’s compensation for the Economic Dev. Division)   (Source: AOS CFAE) | |
| **Audit Objectives - *State/Local-Wide Central Service Costs*** | |
| 1) Obtain an understanding of internal control over compliance requirements for central service costs, 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 A-87 (codified in 2 CFR Part 225) as follows:  a) Direct charges to Federal awards were for allowable costs.  b) Charges to cost pools allocated to Federal awards through central service CAPs were for allowable costs.  c) The methods of allocating the costs are in accordance with the applicable cost principles, and produce and equitable and consistent distribution of costs, which benefit from the central service costs being allocated (e.g., cost allocation bases include all activities, including all State departments and agencies and, if appropriate, non-State organizations which receive services).  d) Cost allocations were in accordance with central service CAPs approved by the cognizant agency or, in cases where such plans are not subject to approval, in accordance with the plan on file. | |
| **Compliance Requirements - *State/Local-Wide Central Service Costs*** | |
| **State/Local-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 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-wide central service cost allocation plan (CAP) provides that process. (Refer to A-87, Appendix C, State/Local-Wide Central Service Cost Allocation Plans, 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-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-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.  ***1. Compliance Requirements – State/Local-Wide Central Service Costs***  *a. Basic Guidelines*   * + - 1. The basic guidelines affecting allowability of costs (direct and indirect) are identified in A-87, Appendix A, paragraph C.       2. To be allowable under Federal awards, costs must meet the following general criteria (A-87, Appendix A, paragraph C.1):   (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Appendix A, paragraph C.2 for additional information on reasonableness of costs.)  (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Appendix A, paragraph C.3 for additional information on allocable costs.)  (c) Be authorized or not prohibited under State or local laws or regulations.  (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.  (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.  (f) 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.  (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.  (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.  (i) Be net of all applicable credits. (Refer to A-87, Appendix A, paragraph C.4 for additional information on applicable credits.)  (j) Be adequately documented.  *b. Selected Items of Cost*  (1) Sections 1 through 43 of A-87, Appendix B, provide the principles to be applied in establishing the allowability or unallowability of certain items of cost. (For a listing of costs, refer to Exhibit 1 of this part of the Supplement.) These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this section of A-87 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 or standards provided for similar or related items of cost.  (2) A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in A-87, Appendix A.  *c. Submission Requirements*  (1) Submission requirements are identified in A-87, Appendix C, paragraph D.  (2) A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.  (3) A local government that has been designated as a “major local government” by OMB is required to submit a central service CAP to its cognizant agency annually. This listing is posted on the OMB website (<http://www.whitehouse.gov/omb/management> ). All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in A-87 and maintain the plan and related supporting documentation for audit. Local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency. If a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the local government’s plan.  (4) All central service CAPs will be prepared and, when required, submitted within the 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.  *d. Documentation Requirements*  (1) The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.  (2) The documentation requirements for all central service CAPs are contained in A 87, Appendix C, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.  e. *Required Certification* – No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in A-87, Appendix C.  f. *Allocated Central Service Costs (Section I Costs)* – A carry-forward adjustment is not permitted for a central service activity that was not included in the previously approved plan or for unallowable costs that must be reimbursed immediately (A-87, Appendix C, paragraph G.3).  *g. Billed Central Service Costs (Section II Costs)*  (1) Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (A- 87, Appendix C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.  (2) Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (A-87, Appendix C, paragraph G.4). The adjustments will be made through one of the following methods:  (a) A cash refund to the Federal Government for the Federal share of the adjustment, if revenue exceeds costs,  (b) Credits to the amounts charged to the individual programs,  (c) Adjustments to future billing rates, or  (d) Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service does not exceed $500,000.  (3) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer (A-87, Appendix B, paragraph 22).  **Source of Governing Requirements**  The requirements for allowable costs/cost principles are contained in the A-102 Common Rule (§\_\_\_.22), OMB Circular A-110 (2 CFR section 215.27), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. | |
| **Audit Objectives *- State/Local Department or Agency Costs – Direct and Indirect*** | |
| 1. Obtain an understanding of internal control over the compliance requirements for State/local department or agency costs, 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 A-87 as follows: 3. Direct charges to Federal awards were for allowable costs. 4. Charges to cost pools used in calculating indirect cost rates were for allowable costs. 5. The methods for allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs (e.g., all activities that benefit from the indirect cost, including unallowable activities, must receive an appropriate allocation of indirect costs). 6. Indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements. 7. For local departments or agencies that do not have to submit an ICRP to the cognizant Federal agency, indirect cost rates were applied in accordance with the ICRP maintained on file. | |
| **Compliance Requirements *– State/Local Department or Agency Costs – Direct and Indirect*** | |
| The individual State/local 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 A-87 (codified in 2 CFR Part 225).  While direct costs are those that can be identified specifically with a particular final cost objective, the indirect costs are those that have been incurred for common or joint purposes, and not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate.  The indirect cost rate proposal (ICRP) provides the documentation prepared by a State/local 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 carrying out Federal awards, and (2) costs of central governmental services distributed through the State/local-wide central service CAP that are not otherwise treated as direct costs. The IRCPs 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 A-87 (codified in 2 CFR Part 225), Appendix E, paragraph B).  ***1. General Compliance Requirements – State/Local Department or Agency Costs – Direct and Indirect***  a. *Basic Guidelines* – Refer to the previous section, “Allowability of Costs – General Criteria (applicable to both direct and indirect costs) – Basic Guidelines,” for the guidelines affecting the allowability of costs (direct and indirect) under Federal awards.  b. *Selected Items of Cost* – Refer to the previous section, “Allowability of Costs – General Criteria (applicable to both direct and indirect costs) – Selected Items of Cost,” for the principles to establish allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect.  c. *Allocation of Indirect Costs and Determination of Indirect Cost Rates*  The specific methods for allocating indirect costs and computing indirect cost rates are as follows:  (1) *Simplified Method –* This method is applicable where a governmental unit’s department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in the circular (A-87, Appendix E, paragraph C.2).  (2) *Multiple Allocation Base Method –* This method is applicable where a governmental unit’s department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to A-87, Appendix E, paragraph C.3.)  (3) *Special Indirect Cost Rates –* In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to A-87, Appendix E, paragraph C.4.)  (4) *Cost Allocation Plans –* In certain cases, the cognizant agency may require a State or local governmental unit’s department or agency to prepare a CAP instead of an ICRP. These are infrequently occurring cases in which the nature of the department or agency’s Federal awards makes impracticable the use of a rate to recover indirect costs. A CAP required in such cases consists of narrative descriptions of the methods the department or agency uses to allocate indirect costs to programs, awards, or other cost objectives. Like an ICRP, the CAP either must be submitted to the cognizant agency for review, negotiation and approval, or retained on file for inspection during audits.  d. *Submission Requirements*  (1) Submission requirements are identified in A-87, Appendix E, paragraph D.1. All departments or agencies of a governmental unit claiming indirect costs under Federal awards must prepare an ICRP and related documentation to support those costs.  (2) A State/local department or agency for which a cognizant Federal agency has been assigned by OMB must submit its ICRP to its cognizant agency. Smaller local government departments or agencies which are not required to submit a proposal to the cognizant Federal agency must develop an ICRP in accordance with the requirements of A-87, and maintain the proposal and related supporting documentation for audit. Where a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the subrecipient’s plan.  (3) Each Indian tribal government desiring reimbursement of indirect costs must submit its ICRP to its cognizant agency, which generally is the Department of the Interior.  (4) ICRPs must be developed (and, when required, submitted) within 6 months after the close of the governmental unit’s fiscal year.  e. *Documentation and Certification Requirements*  The documentation and certification requirements for ICRPs are included in A‑87, Appendix E, paragraphs D.2 and 3, respectively. The proposal and related documentation must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.  (Source: 2017 OMB Compliance Supplement, Part 3.1) | |
| **Additional Program Specific Requirements**  There were no Part 4 OMB or Agency Program Specific requirements noted.  The grant application, agreement, or policies may contain the specific requirements for allowable costs/cost principles.  (Source: ) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Allowable Costs / Cost Principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| ***Suggested Compliance Audit Procedures – State/Local-Wide Central Service Costs***  a. 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) In reviewing the State/local-wide central service costs, the auditor may not need to test all central service costs (allocated or billed) every year; for example, the auditor in obtaining sufficient evidence for the opinion may consider testing each central service at least every 5 years, and perform additional testing for central services with operating budgets of $5 million or more.  (2) If the local governmental entity is 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-Wide Central Service CAPs* – 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 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 Guidelines” section of A-87, Appendix A, paragraph C.  (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Appendix B).  (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-Wide Central Service CAPs*  (1) Verify that the central service CAP includes the required documentation in accordance with A-87, Appendix C, paragraph E.  (2) *Testing of the State/Local-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) Determine whether the bases used to allocate costs are appropriate, i.e., costs are allocated in accordance with relative benefits received.  (d) Determine whether 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, determine that the data included in the bases are current and accurate.  (f) Verify that carry-forward adjustments are properly computed in accordance with A-87, Appendix C, paragraph G.3.  (3) *Testing of the State/Local-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 applicable cost principles;  (ii) Working capital reserves are not excessive in amount (generally not greater than 60 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.  Note: A 60-day working capital reserve is not automatic. Refer to the HHS publication, *A Guide for State, Local, and Indian Tribal Governments (ASMB C-10)* for guidelines.  (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 applicable cost principles and Federal statutes.  (d) Test, where billed central service activities are funded through general revenue appropriations, that the billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.  (e) For self-insurance and pension funds, ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study that is not over 2 years old.  (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. |  |
| ***Suggested Compliance Audit Procedures – State/Local Department or Agency Costs – Direct and Indirect***  a. 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. If the 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 (Direct and Indirect Costs) – 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 or used in formulating indirect cost rates used for recovering indirect costs from Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Guidelines” section of A-87, Appendix A, paragraph C.  <http://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225-appA.pdf>  (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Appendix B).  [*http://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225-appB.pdf*](http://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225-appB.pdf)  ***Note: While several items are included in A-87 (2 CFR 225) Appendix B, one item to note is Time & Effort / Semi-Annual certification (paragraph 8h). If A-87 applies to the program, then time & effort/semi-annual certification applies. This is not limited to only Education programs.***  (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 Department or Agency ICRPs*  (1) Verify that the ICRP includes the required documentation in accordance with A-87, Appendix E, paragraph D.  (2) *Testing of the ICRP* – There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with A-87). If there are 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.  (a) When the ICRA is the basis for indirect cost charged to a major program, the auditor is required to obtain appropriate assurance that the costs collected in the cost pools and allocation methods are in compliance with the applicable cost principles. The following procedures are some acceptable options the auditor may use to obtain this assurance:  (i) *Indirect Cost Pool* – Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with A-87.  (A) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).  (B) 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.  (C) Trace the central service costs that are included in the indirect cost pool to the approved State/local-wide central service CAP or to plans on file when submission is not required.  (ii) *Direct Cost Base* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of A-87 and produce an equitable distribution of costs.  (A) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.  (B) 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.  (C) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).  (iii) *Other Procedures*  (A) Examine the employee time report system results (where and if used) to ascertain if they are accurate, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged. (Refer to A-87, Appendix B, paragraph 8.h for additional information on support of salaries and wages - [*http://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225-appB.pdf*](http://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225-appB.pdf) *pg. 5/15*.)  (B) 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 Federal agency, as required, the auditor should determine whether documentation exists to support the costs. Where the auditee has documentation, the suggested general audit procedures (direct and indirect costs under paragraph 4.b of this section) 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, as required, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation. |  |
| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, and management letter comments)** | |
| **A. Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)**  **B. Assessment of Control Risk:**  **C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**  **D. Results of Compliance (Substantive Tests) Tests:**  **E. Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** | |

**ICRP (Testing of the Program)**

The ICRP is based upon costs charged to cost pools representing costs of a base year. The base year often precedes the year in which the ICRP is prepared and the year the resulting Indirect Cost Rate Agreement (IDCRA) is used to charge indirect costs. For example, a non-federal entity may submit an ICRP in January 2004, based upon costs incurred and charged to cost pools during fiscal year ending June 30, 2003 (2003), the base year. The resulting IDCRA negotiated during year ending June 30, 2004 (2004) would be used as the basis for charging indirect costs to federal awards in the year ended June 30, 2005 (2005). For this example, the term IDCRA will also include an ICRP which is not required to be submitted to the federal agency for indirect cost negotiation but is retained on file is first used to charge indirect costs to federal awards the same as an approved plan resulting in an IDCRA.

An audit timing consideration is that the audit for 2003 (which covers the applicable cost pools) may be completed before the ICRP is submitted. Therefore, as part of the audit, the auditor cannot complete testing of the ICRP. Also, if the auditor waits to test the ICRP until 2005 (the year when this ICRP is first used to charge federal awards), the auditor would be testing 2003 records which would then be two years old.

Continuing this example, when the IDCRA is the basis of material charges to a major program in 2005, the auditor for 2005 is require to obtain appropriate assurance that the costs collected in the cost pools and allocation methods are in compliance with A-87 (codified in 2 CFR Part 225) cost principles. The following are some acceptable options the auditor may use to obtain this assurance.

* Perform interim testing of the costs charged to cost pools (e.g., determine from management the cost pools that management expects to include the ICRP and test the costs charged to those pools for compliance with the cost principles of Circular A-87 during the 2003 audit. As part of the 2004 audit, complete testing and verify management’s representation against the ICRP finally submitted in 2004.
* Test costs charged to the cost pools underlying the ICRP during the audit of 2004, the year immediately following the base year. This would require testing of 2003 transactions.
* Wait until 2005, the year in which charges from the IDCRA are material to a major program and test costs charged to cost pools (2003) used to prepare the ICRP. This is a much more difficult approach because it requires going back two years to audit the cost charged to cost pools of the base year.

Advantages of the first two methods are that the testing of the costs charged to the cost pools occurs closer to the time when the transactions occur (which makes audit exceptions easier to resolve). When material indirect costs are charged to any Type A program (determined in accordance with Circular A-133), auditors are strongly encouraged to use one of the first two methods. This is because under the risk-based approach, described in OMB Circular A-133, all Type A programs are required to be considered major programs at least in every three years and the IDCRA is usually used to charge federal awards for at least three years.

When the government submits an IDCRA, the government provides written assurance to the federal government that the plan includes only allowable costs. Accordingly, any material unallowable costs reflected in the ICRP should be reported as an audit finding in the year in which they are first found by audit.

An ICRP may result in an IDCRA that covers one year, but most often results in a multi-year IDCRA. When an ICRP has been tested in an prior year and this testing provides the auditor appropriate audit assurance, in subsequent years the auditor is only required to perform tests to ascertain if there have been material changes to the cost accounting practices and, if so, that the federal cognizant agency for indirect cost negotiation has been informed.

The auditor should take appropriate steps to coordinate testing of costs charges to cost pools supporting an ICRP with the client and, as appropriate, with the federal cognizant agency for indirect cost negotiation.

**The auditor should consult with the client in the base year and the year in which the ICRP is submitted to determine the best (e.g., most efficient) alternative under the circumstances.**

**LIST OF SELECTED ITEMS OF COST CONTAINED IN OMB COST PRINCIPLES CIRCULARS (Amended effective June 9, 2004)**

The following exhibit provides an updated listing of selected items of cost contained in each of the OMB cost principles circulars based on the changes contained in the *Federal Register* notice dated May 10, 2004 (<http://www.whitehouse.gov/omb/grants_docs/>). The primary changes are deletion of items, changes in language for consistency, and extension of certain items previously only in one or more—but not all—sets of OMB cost principles to another set(s) of OMB cost principles. Although these changes minimized the number of non-substantive differences among the OMB cost principles, there remain several cost items that are unique to one type of entity (e.g., commencement and convocation costs are applicable only to universities).

The exhibit lists the selected items of cost along with a cursory description of their allowability. The numbers in parentheses refer to the cost item in the applicable circular, as revised. The reader is strongly cautioned not to rely exclusively on the summary but to place primary reliance on the referenced circular text.

| **Selected Items of Cost  Exhibit 1** (amended 6/04) | | | |
| --- | --- | --- | --- |
| *Selected Cost Item* | *OMB Circular A-87, Attachment B State, Local, & Indian Tribal Governments* | *OMB Circular A-21, Section J Educational Institutions* | *OMB Circular A-122, Attachment B Non-Profit Organizations* |
| Advertising and public relations costs | (1) Allowable with restrictions | (1) Allowable with restrictions | (1)-Allowable with restrictions |
| Advisory councils | (2)-Allowable with restrictions | (2) Allowable with restrictions | (2) Allowable with restrictions |
| Alcoholic beverages | (3)-Unallowable | (3)-Unallowable | (3)-Unallowable |
| Alumni/ae activities | Not specifically addressed | (4)-Unallowable | Not specifically addressed |
| Audit costs and related services | (4)-Allowable with restrictions **and** as addressed in OMB Circular A-133\* (see note following this table) | (5)-Allowable with restrictions **and** as addressed in OMB Circular A-133\* (see note following this table) | (4)-Allowable with restrictions **and** as addressed in OMB Circular A-133\* (see note following this table) |
| Bad debts | (5)-Unallowable | (6)-Unallowable | (5)-Unallowable |
| Bonding costs | (6)-Allowable with restrictions | (7) Allowable with restrictions | (6)-Allowable with restrictions |
| Commencement and convocation costs | Not specifically addressed | (8)-Unallowable with exceptions | Not specifically addressed |
| Communication costs | (7)-Allowable | (9)-Allowable | (7)-Allowable |
| Compensation for personal services | (8)-Unique criteria for support | (10)-Unique criteria for support | (8)-Unique criteria for support |
| Compensation for personal services - organization-furnished automobile | Not specifically addressed | (10.g)- Unallowable for that portion of costs attributed to personal use | (8.g)- Unallowable for that portion of costs attributed to personal use |
| Compensation for personal services - sabbatical leave costs | Not specifically addressed | (10.f(4))- Allowable with restrictions | Not specifically addressed |
| Compensation for personal services - severance pay | (8)-Allowable with restrictions | (10.h)-Allowable with restrictions | (8.k)-Allowable with restrictions |
| Contingency provisions | (9)-Unallowable with exceptions | (11)-Unallowable with exceptions | (9)-Unallowable with exceptions |
| Deans of faculty and graduate schools | Not addressed | (12)-Allowable | Not addressed |
| Defense and prosecution of criminal and civil proceedings and claims | (10)-Allowable with restrictions | (13)-Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement) | (10)-Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement) |
| Depreciation and use allowances | (11)-Allowable with qualifications | (14)-Allowable with qualifications | (11)-Allowable with qualifications |
| Donations and contributions | (12)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient) | (15)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient) | (12)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient) |
| Employee morale, health, and welfare costs | (13)-Allowable with restrictions | (16)-Allowable with restrictions | (13)-Allowable with restrictions |
| Entertainment costs | (14)-Unallowable | (17)-Unallowable | (14)-Unallowable |
| Equipment and other capital expenditures | (15)-Allowability based on specific requirements | (18)-Allowability based on specific requirements | (15)-Allowability based on specific requirements |
| Fines and penalties | (16)-Unallowable with exception | (19)-Unallowable with exception | (16)-Unallowable with exception |
| Fundraising and investment management costs | (17)-Unallowable with exceptions | (20)-Unallowable with exceptions (Fundraising) | (17)-Unallowable with exceptions |
| Gains and losses on depreciable assets | (18)-Allowable with restrictions (Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs) | (21)-Allowable with restrictions | (18)-Allowable with restrictions |
| General government expenses | (19)-Unallowable with exceptions | Not specifically addressed | Not specifically addressed |
| Goods or services for personal use | (20) Unallowable | (22)-Unallowable | (19)-Unallowable |
| Housing and personal living expenses | Not specifically addressed | (23)-Unallowable | (20)-Unallowable as overhead costs |
| Idle facilities and idle capacity | (21)-Idle facilities - unallowable with exceptions; idle capacity - allowable with restrictions | (24)-Idle facilities - unallowable with exceptions; idle capacity - allowable with restrictions | (21)-Idle facilities - unallowable with exceptions; idle - capacity allowable with restrictions |
| Insurance and indemnification | (22)-Allowable with restrictions | (25)-Allowable with restrictions | (22)-Allowable with restrictions |
| Interest | (23)-Allowable with restrictions | (26)-Allowable with restrictions | (23)-Allowable with restrictions |
| Interest - substantial relocation | Not specifically addressed | (26.b(6))-Possible adjustment in relocated within 20 years | (23.a(6)(d))-Possible adjustment in relocated within 20 years |
| Labor relations costs | Not specifically addressed | (27)-Allowable | (24)-Allowable |
| Lobbying | (24)-Unallowable | (28)-Unallowable with exceptions | (25)-Unallowable with exceptions |
| Lobbying - executive lobbying costs | (24.b)-Unallowable | (28.h)-Unallowable | (25.d)-Unallowable |
| Losses on other sponsored agreements or contracts | Not specifically addressed | (29)-Unallowable | (26)-Unallowable (Losses on other awards or contracts) |
| Maintenance and repair costs | (25)-Allowable with restrictions (Maintenance, operations, and repairs) | (30)-Allowable with restrictions | (27)-Allowable with restrictions |
| Materials and supplies costs | (26)-Allowable with restrictions | (31)-Allowable with restrictions | (28)-Allowable with restrictions |
| Meetings and conferences | (27)- Allowable with restrictions | (32)- Allowable with restrictions | (29)-Allowable with restrictions |
| Memberships, subscriptions, and professional activity costs | (28)-Allowable as a direct cost for civic, community and social organizations with Federal approval; unallowable for lobbying organizations. | (33)-Unallowable for civic, community, or social organizations | (30)-Allowable for civic and community organizations with Federal approval; unallowable for social organizations. |
| Organization costs | Not specifically addressed | Not specifically addressed | (31)-Unallowable except Federal prior approval |
| Page charges in professional journals | (34.b)-Allowable with restrictions (addressed under “Publication and printing costs”) | (39.b)-Allowable with restrictions (addressed under “Publication and printing costs”) | (32)-Allowable with restrictions |
| Participant support costs | Not specifically addressed | Not specifically addressed | (33)-Allowable with prior approval of the Federal awarding agency |
| Patent costs | (29)-Allowable with restrictions | (34)-Allowable with restrictions | (34)-Allowable with restrictions |
| Plant and homeland security costs | (30)-Allowable with restrictions | (35)-Allowable with restrictions | (35)-Allowable with restrictions |
| Pre-agreement costs | (31)-Allowable with restrictions (Pre-award costs) | (36)-Unallowable unless approved by the Federal sponsoring agency | (36)-Allowable with restrictions |
| Professional service costs | (32)-Allowable with restrictions | (37)-Allowable with restrictions | (37)-Allowable with restrictions |
| Proposal costs | (33)-Allowable with restrictions | (38)-Allowable with restrictions | Not specifically addressed |
| Publication and printing costs | (34)-Allowable with restrictions | (39)-Allowable with restrictions | (38)-Allowable with restrictions |
| Rearrangement and alteration costs | (35)-Allowable (ordinary and normal); allowable with Federal prior approval (special) | (40)-Allowable (ordinary and normal); allowable with Federal prior approval (special) | (39)-Allowable (ordinary and normal); allowable with Federal prior approval (special) |
| Reconversion costs | (36)-Allowable with restrictions | (41)-Allowable with restrictions | (40)-Allowable with restrictions |
| Recruiting costs | (1.c)-Allowable with restrictions (addresses costs of advertising only) | (42)-Allowable with restrictions | (1)-Allowable with restrictions |
| Relocation costs | Not specifically addressed | (42.d)-Allowable with restrictions | (42)-Allowable with restrictions |
| Rental cost of buildings and equipment | (37)-Allowable with restrictions | (43)-Allowable with restrictions | (43)-Allowable with restrictions |
| Royalties and other costs for use of patents | (38)-Allowable with restrictions | (44)-Allowable with restrictions | (44)-Allowable with restrictions |
| Scholarships and student aid costs | Not specifically addressed | (45)-Allowable with restrictions | Not specifically addressed |
| Selling and marketing costs | (39)-Unallowable with exceptions | (46)-Unallowable with exceptions | (45)-Unallowable with exceptions |
| Specialized service facilities | Not specifically addressed | (47)-Allowable with restrictions | (46)-Allowable with restrictions |
| Student activity costs | Not specifically addressed | (48)-Unallowable unless specifically provided for in the sponsored agreement | Not specifically addressed |
| Taxes | (40)-Allowable with restrictions | (49)-Allowable with restrictions | (47)-Allowable with restrictions |
| Termination costs applicable to sponsored agreements | (41)-Allowable with restrictions | (50)-Allowable with restrictions | (48)-Allowable with restrictions |
| Training costs | (42)-Allowable for employee development | (51)-Allowable for employee development | (49)-Allowable with limitations |
| Transportation costs | Not specifically addressed | (52)-Allowable with restrictions | (50)-Allowable |
| Travel costs | (43)-Allowable with restrictions | (53)-Allowable with restrictions | (51)-Allowable with restrictions |
| Trustees | Not specifically addressed | (54)-Allowable with restrictions | (52)-Allowable with restrictions |

\* Due to the supersession of OMB Circular A-133, for awards that still are subject to the OMB cost principles, the language of §\_.230, Audit costs, is included here with the caveat that the audit threshold in paragraph (b)(2) is outdated.

1. Allowable costs. Unless prohibited by law, the cost of audits made in accordance with the provisions of this part are allowable charges to Federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with the provisions of applicable OMB cost principles circulars, the FAR (48 CFR parts 30 and 31), or other applicable cost principles or regulations.

(b) Unallowable costs. A non-Federal entity shall not charge the following to a Federal award:

(1) The cost of any audit under the Single Audit Act Amendments of 1996 (31 U.S.C. 7501 et seq.) not conducted in accordance with this part.

(2) The cost of auditing a non-Federal entity which has Federal awards expended of less than $300,000 (*$500,000 for fiscal years ending after December 31, 2003)* per year and is thereby exempted under §\_\_\_.200(d) from having an audit conducted under this part. However, this does not prohibit a pass-through entity from charging Federal awards for the cost of limited scope audits to monitor its subrecipients in accordance with §\_\_\_.400(d)(3),provided the subrecipient does not have a single audit. For purposes of this part, limited scope audits only include agreed-upon procedures engagements conducted in accordance with either the AICPA’s generally accepted auditing standards or attestation standards, that are paid for and arranged by a pass-through entity and address only one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking, and reporting.

| **C. Cash Management** | |
| --- | --- |
| **Audit Objectives** | |
| 1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). 2. Determine whether for advance payments the recipient/subrecipient followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and their disbursement. 3. Determine whether the pass-through entity implemented procedures to ensure that advance payments to subrecipients conformed substantially to the same timing requirements that apply to the pass-through entity. 4. Determine whether interest earned on advances was reported/remitted as required. 5. Determine whether an entity has awards funded on a reimbursement payment basis and, if so, whether program costs are paid for with entity funds before reimbursement is requested from the Federal Government. | |
| **Compliance Requirements** | |
| **General**  When awards provide for advance payments, recipient must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement and establish similar procedures for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients’ cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.  U.S. department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions under which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury is Subpart B of 31 CFR part 205 (Subpart B).  Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 USC 6501 *et seq*.) and the Indian Self-Determination Act (23 USC 450), interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to $100 per year may be kept for administrative expenses. Interest earned by non-State non-profit entities on Federal fund balances in excess of $250, regardless of the funding agency, is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.  When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.  Note: Violations of cash management rules *alone* generally should not result in a questioned cost unless the entity spent the interest earnings related to the excess grant cash balances on hand throughout the year (these monies would be payable back to the pass-through/federal agency). Further, the interest earnings expended must exceed $10,000 in a single major program to be a questioned cost. (Source: AOS CFAE)  **Source of Governing Requirements**  The requirements for cash management are contained in the A-102 Common Rule (§\_\_\_.21), OMB Circular A-110 (2 CFR section 215.22), Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.  **Availability of Other Information**  Treasury’s Bureau of the Fiscal Service maintains a Cash Management Improvement Act web page (<http://www.fms.treas.gov/cmia/>).  (Source: 2017 OMB Compliance Supplement, Part 3.1)  **Program Specific Requirements**  OMB Part 4 Program Specific Requirements:  The State may draw cash through the Automated Clearing House (ACH) or the Automated Standard Application for Payments (ASAP) system for (40 CFR sections 35.3560 and 35.3565):   * 1. *Loans* – when the DWSRF receives a request from a loan recipient, based on incurred costs, including pre-building and building costs.   2. *Refinance or Purchase of Municipal Debt* – generally, at a rate not greater than equal amounts over the maximum number of quarters that payments can be made, and up to the amount committed to the refinancing or purchase of the local debt. A State may immediately draw cash for up to the greater of $2 million or 5 percent of each fiscal year’s capitalization grant to refinance costs.   3. *Purchase of Insurance* – when insurance premiums are due.   4. *Guarantees and Security for Bonds* – immediately, in the event of imminent default in debt service payments on the guaranteed/secured debt; otherwise, up to the amount dedicated for the guarantee or security based on actual construction cost.   5. *Set-Asides* – generally, on an incurred cost basis after workplans have been approved by EPA (40 CFR section 35.3560(e)).   (Source: 2017 OMB Compliance Supplement, Part 4, 66.468 Capitalization Grants for Drinking Water State Revolving Funds)  **Additional Program Specific Requirements**  **NOTE: Most LGA’s receive WPCLF assistance on a reimbursement basis. The State of Ohio administers most cash payments to vendors. Except for initial engineering and design costs, it is unlikely that a local government would receive advance-funding.**    **Loan Disbursement Procedures**  OEPA and OWDA jointly administer the DWRLF program disbursements. As further described below, LGA’s must submit supporting documentation for project expenditures to OWDA and record the memo receipts/disbursements in their accounting system.  These procedures are applicable for all loans approved by the Ohio Water Development Authority.  Complete payment instructions should have been included as part of the loan application. In the event these were incomplete, an LGA Payment Instruction Form must be submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement. A copy of this form specific to your project will need to be requested from OWDA.    For contractors receiving payments directly from OWDA, a Contractor Payment Instruction Form must be completed by the contractor and submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement to the contractor.  Each reimbursement request should be sent to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215, and must include the following items:   * A completed on-line fund payment request form with original signature from the LGA summarizing the invoices and amounts requested. This form is completed on-line, printed, signed and submitted with the items listed below. * A copy of each invoice listed on the on-line fund payment request form. * A completed OWDA’s Contractor’s Estimate form and a detailed schedule of values for each contractor invoice listed on the on-line fund payment request form. The Contractor Estimate form must include original signatures by the LGA, engineer, and the contractor. All estimates must be numbered and must be submitted in numerical order. A contractor’s estimate form is not required for non-contractor line item requests.   All reimbursement requests are processed in the order they are received. Once a week, OWDA will submit completed vouchers to banks for processing. OWDA’s banks will then process either a check or transfer the funds via federal wire.  (Source: [OWDA Disbursement Procedures](http://www.owda.org/disbursement-forms) included under “Loan Info” on the [OWDA website](https://www.owda.org/default.aspx))  The individual grant application, agreement, or policies may contain the specific requirements for cash management.  (Source: ) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Cash Management and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| Note: 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.  Note: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.  *Recipients Other than States and Subrecipients*  1) For those programs that received advances of Federal funds, ascertain (and document) the procedures established with the Federal agency or pass-through entity to minimize the time between the transfer of Federal funds and the disbursement of funds for program purposes.  2) Select a sample of Federal cash draws and verify that:   * 1. Established procedures to minimize the time elapsing between drawdown and disbursement were followed.   2. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by the A-102 Common Rule (§\_\_\_.22) and OMB Circular A-110 (2 CFR section 215.22).   3) When awards are funded on a reimbursement basis, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.  4) Review records to determine if interest was earned on Federal cash draws. If so, review evidence to ascertain whether it was returned to the appropriate agency. |  |
| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, and management letter comments)** | |
| **A. Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)**  **B. Assessment of Control Risk:**  **C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**  **D. Results of Compliance (Substantive Tests) Tests:**  **E. Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** | |

| **D. RESERVED**   * In the 2017 Supplement, OMB has removed several of the compliance requirements that previously were required to be tested across all programs, when applicable. The compliance requirements that were removed are Davis-Bacon Act (now applicable only for specified programs as a “special test or provision”); Relocation and Real Property Assistance; and, within Reporting, Subaward Reporting under the Federal Funding Accountability and Transparency Act. As with any other change in a compliance requirement, if there was a finding(s) in any of these areas in audits conducted using the 2014 Supplement, those findings must continue to be reported in the summary schedule of prior audit findings and the corrective action plan, as provided in OMB Circular A-133 §\_.315/2 CFR section 200.511, and be considered in the assessment of risk under OMB Circular A-133 §\_.525(b)/2 CFR section 200.519(b). |
| --- |

| **E. Eligibility – Not Applicable**   * Per 2017 OMB Compliance Supplement, Part 2 * Per Part 1 above Capitalization grants are awarded to States to create and maintain Drinking Water State Revolving Funds (DWSRFs). The DWSRF can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. Eligibility is not determined at the local level. |
| --- |

| **F. Equipment and Real Property Management – Not Applicable**   * Per 2017 OMB Compliance Supplement, Part 2 |
| --- |

| **G. Matching, Level of Effort, Earmarking – Not Applicable**   * Level of Effort requirements are not applicable to the program. * Matching and Earmarking requirements apply only to the State. However, it is possible that a local match or earmarking requirements also apply to a local government’s funded project. Auditors should review the terms and conditions of their grant/loan awards to determine whether there are any local matching or earmarking requirements. If so, auditors should contact CFAE for this section, & document those requirements and test the substantive procedures accordingly. |
| --- |

| **H. Period of Availability of Federal Funds (“Period of Performance” Elsewhere in the FACCR)** | |
| --- | --- |
| **Audit Objectives** | |
| 1) Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).  2) Determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period. | |
| **Compliance Requirements** | |
| **General**  Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §\_\_\_.23; OMB Circular A-110 (2 CFR section 215.28)).  Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation The Federal agency may extend this deadline upon request (A-102 Common Rule, §\_\_\_.23; OMB Circular A-110 (2 CFR section 215.71)).  **Source of Governing Requirements**  The requirements for period of availability of Federal funds are contained in the A-102 Common Rule (§\_\_\_\_.23), OMB Circular A-110 (2 CFR sections 215.28 and 215.71), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.  (Source: 2017 OMB Compliance Supplement, Part 3.1)  *Definition of Obligation* - An obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707):   | **IF AN OBLIGATION IS FOR --** | **THE OBLIGATION IS MADE --** | | --- | --- | | (a) Acquisition of real or personal property. | On the date on which the State or subgrantee makes a binding written commitment to acquire the property. | | (b) Personal services by an employee of the State or subgrantee. | When the services are performed. | | (c) Personal services by a contractor who is not an employee of the State or subgrantee. | On the date on which the State or subgrantee makes a binding written commitment to obtain the services. | | (d) Performance of work other than personal services. | On the date on which the State or subgrantee makes a binding written commitment to obtain the work. | | (e) Public utility services. | When the State or subgrantee receives the services. | | (f) Travel. | When the travel is taken. | | (g) Rental of real or personal property. | When the State or subgrantee uses the property. | | (h) A pre-agreement cost that was properly approved by the State under the applicable cost principles. | On the first day of the subgrant period. |   The act of an SEA or other grantee awarding Federal funds to an LEA or other eligible entity within a State does not constitute an obligation for the purposes of this compliance requirement. An SEA or other grantee may not reallocate grant funds from one subrecipient to another after the period of availability ends.  If a grantee or subgrantee uses a different accounting system or accounting principles from one year to the next, it shall demonstrate that the system or principle was not improperly changed to avoid returning funds that were not timely obligated. A grantee or subgrantee may not make accounting adjustments after the period of availability ends in an attempt to offset audit disallowances. The disallowed costs must be refunded.  (Source: 2017 OMB Compliance Supplement, Part 4, Department of Education Cross-Cutting – which is referred to in Part 3 as an example for all federal agencies)  **Additional Program Specific Requirements**  Only state level requirements were noted in Part 4 of the OMB Compliance Supplement.  There were no Agency Program Specific requirements noted.  The individual grant application, agreement, or policies may contain the specific requirements for period of performance of federal funds.  (Source: ) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Period of Performance and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| Note: 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 availability and document the availability period.   1. Test transactions charged to the Federal award after the end of the period of availability to verify that the – 2. underlying obligations occurred within the period of availability, and 3. liquidation (payment) was made within the allowed time period. 4. Test transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability. 5. Test adjustments (i.e., manual journal entries) to the Federal funds and verify that the adjustments were for transactions that occurred during the period of availability.   As long as the auditor obtains sufficient, appropriate evidence to meet the period of availability audit objectives, the auditor may test period of availability using the same test items used to test other types of compliance requirements (e.g., activities allowed or unallowed or allowable costs/cost principles). However, if this approach is used, the auditor should exercise care in designing the sample to ensure that sample items are suitable for testing the stated objectives of compliance requirements covered by the sample. |  |
| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, and management letter comments)** | |
| **A. Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)**  **B. Assessment of Control Risk:**  **C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**  **D. Results of Compliance (Substantive Tests) Tests:**  **E. Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** | |

| **I. Procurement and Suspension and Debarment** | |
| --- | --- |
| **Audit Objectives** | |
| 1) Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).  2) Determine whether procurements were made in compliance with the provisions of the A-102 Common Rule, OMB Circular A-110, and other procurement requirements specific to an award.  3) For covered transactions determine whether the non-Federal entity verified that entities are not suspended, debarred, or otherwise excluded. | |
| **Compliance Requirements** | |
| **General**  *Procurement*  States, and governmental subrecipients of States, will use the same State policies and procedures used for procurements from non-Federal funds. They also must ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.  Local governments and Indian tribal governments that are direct recipients of Federal awards and their subrecipients will use procurement procedures that conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule or OMB Circular A-110 (2 CFR part 215), as applicable.  Institutions of higher education, hospitals, and other non-profit organizations will use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110 (2 CFR part 215). Their subrecipients will use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110 (2 CFR part 215) or the A-102 common rule, as applicable.  All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.  **Source of Governing Requirements - Procurement**  The requirements for procurement are contained in the A-102 Common Rule (§\_\_\_\_.36); OMB Circular A-110 (2 CFR sections 215.40 through 215.48); program legislation; Federal awarding agency regulations; and the terms and conditions of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively, are given for each suggested audit procedure indicated below. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)  *Suspension and Debarment*  Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement 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. All nonprocurement transactions entered into by a recipient (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.  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 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/portal/public/SAM/> **(note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer the SAME Exclusions as the Excluded Parties Listing 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).  Non-profit entities receiving contracts from the Federal Government are required to comply with the contract clause at Federal Acquisition Regulation (FAR) 52.209-6 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, which implements Executive Orders 12549 and 12689, Debarment and Suspension; Federal agency regulations in 2 CFR adopting the OMB guidance; the A-102 Common Rule (§\_\_\_\_.36); OMB Circular A-110 (2 CFR section 215.13); program legislation; Federal awarding agency regulations; and the terms and conditions of the award. Most of the Federal agencies have adopted 2 CFR part 180 and relocated their associated agency rules in Title 2 of the CFR. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule (issued November 26, 2003) remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award.  Governmentwide requirements related to suspension and debarment and doing business with suspended or debarred subcontractors under direct Federal procurement awards are contained in FAR 9.405-2(b) and the clause at FAR 52.209-6, and pertain to non-profit entities receiving Federal contracts.  (Source: 2017 OMB Compliance Supplement, Part 3.1)  **Additional Program Specific Requirements**  There were no Part 4 OMB or Agency Program Specific requirements noted.  The individual grant application, agreement, or policies may contain the specific requirements for procurement and suspension & debarment.  (Source: ) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Procurement and Suspension and Debarment, and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| Note: 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 1 - 4 apply only to*** *institutions of higher education, hospitals, and other non-profit organizations; and* ***Federal awards received directly from a Federal awarding agency by a local government*** *or an Indian tribal government.)*  1. Obtain the entity’s procurement policies. Verify that the policies comply with applicable Federal requirements (§\_\_\_\_.36(b)(1) and 2 CFR section 215.43).  2. 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 (§\_\_\_\_.36(c)(2) and 2 CFR section 215.43).  3. Examine procurement policies and procedures and verify the following:  a. Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals (§\_\_\_\_.36(c)(3) and 2 CFR section 215.44(a)(3)).  b. There is a written policy pertaining to ethical conduct (§\_\_\_\_.36(b)(3) and 2 CFR section 215.42).  4. Select a sample of procurements and perform the following:  a. Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis of contract price (§\_\_\_\_.36(b)(9) and 2 CFR section 215.46).  b. Verify that procurements provide full and open competition (§\_\_\_\_.36(c)(1) and 2 CFR section 215.43).  c. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (§\_\_\_\_.36(b)(1) and (d)(4); and 2 CFR sections 215.43 and 215.44(e)).  d. Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action (§\_\_\_\_.36(f) and 2 CFR section 215.45).  e. Verify that the Federal awarding agency approved procurements exceeding $100,000 (see note below) when such approval was required. Procurements (1) awarded by noncompetitive negotiation, (2) awarded when only a single bid or offer was received, (3) awarded to other than the apparent low bidder, or (4) specifying a “brand name” product (§\_\_\_\_.36(g)(2) and 2 CFR section 215.44(e)) may require prior Federal awarding agency approval.  (Note: The $100,000 applies to federal awards made before December 26, 2014 *unless* before that date an agency/program issued guidance to raise the threshold or the increased threshold was specified in the terms and conditions of award. For new federal awards or incremental finding actions with changed terms and conditions made on or after December 26, 2014, the $100,000 threshold also applies if the non-federal entity has delayed implementation of the procurement standards in 2 CFR part 200.)  f. Verify compliance with other procurement requirements specific to an award.  *(****Procedure 5 only applies to*** *States and Federal* ***awards subgranted by the State to a local government*** *or Indian tribal government.)*  5. Test a sample of procurements to ascertain if the State’s laws and procedures were followed and that the policies and procedures used were the same as for non-Federal funds.  ***(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.  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 (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, and management letter comments)** | |
| **A. Results of Test of Controls: (including material weaknesses, significant deficiencies and management letter items)**  **B. Assessment of Control Risk:**  **C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**  **D. Results of Compliance (Substantive Tests) Tests:**  **E. Questioned Costs: Actual \_\_\_\_\_\_\_\_\_\_ Projected \_\_\_\_\_\_\_\_\_\_** | |

| **J. Program Income – Not Applicable**   * The Program Income requirements apply only to the State. * However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any program income requirements. If so, auditors should contact CFAE for this section & document those requirements and test the substantive procedures accordingly. |
| --- |

| **K. RESERVED**   * In the 2016 Supplement, OMB has removed several of the compliance requirements that previously were required to be tested across all programs, when applicable. The compliance requirements that were removed are Davis-Bacon Act (now applicable only for specified programs as a “special test or provision”); Relocation and Real Property Assistance; and, within Reporting, Subaward Reporting under the Federal Funding Accountability and Transparency Act. As with any other change in a compliance requirement, if there was a finding(s) in any of these areas in audits conducted using the 2014 Supplement, those findings must continue to be reported in the summary schedule of prior audit findings and the corrective action plan, as provided in OMB Circular A-133 §\_.315/2 CFR section 200.511, and be considered in the assessment of risk under OMB Circular A-133 §\_.525(b)/2 CFR section 200.519(b). (Source: 2017 OMB Compliance Supplement, Appendix VII) |
| --- |

| **L. Reporting**  ***Auditors should refer to the terms and conditions of the OEPA grant award. Reporting requirements are generally not expected to apply to most LGA’s. OEPA prepares a report annually for the Federal awarding agency which includes the projects awarded and disbursements made among other information. There is usually no LGA involvement in the reporting process. However, local governments must record these payments in their accounting system in a separate fund, sub-fund, revenue line-item, etc. as on-behalf funding in accordance with AOS Bulletin 2000-008.*** | |
| --- | --- |
| **Audit Objectives** | |
| 1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). 2. Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements. | |
| **Compliance Requirements** | |
| **General**  For purposes of the 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.  ***1. Financial Reporting***  Recipients should 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). 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 the prescribed formats.  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 the following requirements for recipients.  The standard financial reporting forms are as follows:  1. *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.  2. *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.  3. *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 OMB’s home page (<http://www.whitehouse.gov/omb/grants_forms>).  ***2. Performance Reporting***  Recipients may be required to submit performance reports at least annually but not more frequently than quarterly. Performance reports generally contain, for each award, brief information of the following types:  1. A comparison of actual accomplishments with the goals and objectives established for the period.  2. Reasons why established goals were not met, if appropriate.  3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.  ***3. Special Reporting***  Non-Federal entities may be required to submit other reports which may be used by the Federal agency for such purposes as allocating program funding.  Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:   1. Have a direct and material effect on the program. 2. Are capable of evaluation against objective criteria stated in the laws, regulations, contract or grant agreements pertaining to the program.   Performance and special reporting data specified in Part 4, Agency Program Requirements, meet the above criteria.  Note: The 2015 OMB Compliance Supplement deleted coverage of the subaward reporting requirements under the Federal Funding Accountability and Transparency Act (FFATA).  **Source of Governing Requirements**  Reporting requirements are contained in the following documents:  a. A-102 Common Rule - Financial reporting, §\_\_\_\_.41; Performance reporting, §\_\_\_.40(b).  b. OMB Circular A-110 - Financial reporting, 2 CFR section 215.52 (this section has not been updated to reference the new form); Performance reporting, 2 CFR section 215.51.  c. Program legislation.  d. Federal awarding agency regulations.  e. The terms and conditions of the award.  (Source: 2017 OMB Compliance Supplement, Part 3.1)  **Program Specific Requirements**  OMB Part 4 Program Specific Requirements:  1. Financial Reporting  a. SF-270, Request for Advance or Reimbursement – Not Applicable  b. SF-271, Outlay Report and Request for Reimbursement for Construction  Programs – Not Applicable  c. SF-425, Federal Financial Report – Applicable    2. Performance Reporting – Not Applicable  3. Special Reporting – Not Applicable  **Additional Program Specific Requirements**  No additional agency specific requirements were noted.  The individual grant application, agreement, or policies may contain the specific requirements for reporting.  (Source: ) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Reporting and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| Note: 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.  Note: Note: For recipients using HHS’ Payment Management System (PMS) to draw Federal funds, the auditor should consider the following steps numbered 1 through 5 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 transaction from pooled payment to use of subaccounts). Although certain data is supplied by the Federal awarding agency (i.e., award authorization amounts) and certain amounts are provided by the Division of Payment Management, HHS, the auditor should ensure that such amounts are in agreement with the recipient’s records and are otherwise accurate.   1. Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Document the types and frequency of required reports. Obtain and review Federal awarding agency, or pass-through entity in the case of a subrecipient, instruction for completing the reports.    1. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).    2. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data. 2. Perform appropriate analytical procedures and ascertain in the reason for any unexpected differences. Examples of analytical procedures include:    1. Comparing current period reports to prior period reports.    2. Comparing anticipated results to the data included in the reports.    3. Comparing information obtained during the audit of the financial statements to the reports.   Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of other audit procedures for reporting.   1. Select a sample of each of the following report types:    1. Financial reports       1. Ascertain if the financial reports were complete, accurate, and prepared in accordance with the required accounting basis.       2. 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.       3. 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.       4. 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).       5. 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.       6. Test mathematical accuracy of reports and supporting worksheets.    2. Performance and special reports       1. 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.       3. Review the supporting records and ascertain if all applicable data elements were included in the sampled reports.      * + 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.  1. 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 (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, 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 \_\_\_\_\_\_\_\_\_\_** | |

| **M. Subrecipient Monitoring**   * The Subrecipient Monitoring requirements are not expected to apply at the local level. * If the local entity has subrecipients, auditors should contact CFAE for this section and test the substantive procedures accordingly. |
| --- |

| **N. Special Tests and Provisions – American Iron and Steel (AIS)** | |
| --- | --- |
| **Audit Objectives** | |
| 1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). 2. Determine whether treatment works funded by the DWSRF used only iron and steel produced in the United States, unless the EPA Administrator has issued a waiver of this requirement. | |
| **Compliance Requirements** | |
| Pub. L. No. 113-76, Consolidated Appropriations Act, 2014, Section 436, requires that, unless exempted by the EPA Administrator, all iron and steel products used for a DWSRF project for the construction, alteration, maintenance, or repair of treatment work are produced in the United States. This requirement does not apply with respect to a project prior to January 17, 2014 if a State agency approved the engineering plans and specifications for the project, in that agency’s capacity to approve such plans and specifications prior to a project requesting bids. Additional information is available at <http://water.epa.gov/grants_funding/aisrequirement.cfm>.  (Source: 2017 OMB Compliance Supplement, Part 4, 66.468 Capitalization Grants for Drinking Water State Revolving Funds) | |
| **In determining how the client ensures compliance, consider the following:** | |
| Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c). Using the guidance provided in the 2013 COSO (<http://www.coso.org/IC.htm>), or GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>), perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program. Plan the testing of internal control to support a low assessed level of control risk for Special Tests and Provisions - American Iron and Steel (AIS) and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control. | |
| **What control procedures address the compliance requirement?** | **WP Ref.** |
| **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 (Substantive Tests)** | **WP Ref.** |
| Note: 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.  *Subrecipients*  a. Select a sample of treatment works disbursement invoices.  b. Review invoices and supporting documentation from suppliers, vendors, and contractors to identify the source of iron and steel materials used in project construction.  c. If any iron or steel material was not manufactured in the United States, determine whether a waiver has been issued by the EPA Administrator. |  |
| **Audit Implications (adequacy of the system and controls, and the effect on sample size, significant deficiencies / material weaknesses, 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 \_\_\_\_\_\_\_\_\_\_** | |

1. The auditor should always:

   * Ask the client if there have been any changes in program requirements.
   * Review the contracts/grant agreements for such changes or other modifications.

   If changes are noted, document them in the W/P’s and consult with Center for Audit Excellence for an appropriate FACCR modification. [↑](#footnote-ref-1)