**Federal Awards Compliance Audit Guidance and Testing**

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| --- | --- |
| **NAME OF CLIENT:** |  |
| **YEAR ENDED:** | 2019 |

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii |
| **CFDA#:** | 14.228 |

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

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

# Important Information (please read)

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

**Note:**

* **This FACCR was written for funds that passed through the Ohio Development Services Agency (ODSA), Office of Community Development (OCD) Information was obtained from the pass through agency, Brian Cunningham, Grant Operations Section Supervisor, the Ohio Development Services Agency, Office of Community Development (OCD).**
* **Per OCD Policy Notice OCD 15.01, OCD ODSA does not permit subgranting of funds or subrecipient agreements with other local governments or agencies. Please contact CFAE if you have a client that appears to have subgranted the funds down to another local government or agency.**

**NAVIGATION PANE**

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

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# AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS

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

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

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

*(Source: AOS CFAE)*

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# Introduction: Materiality by Compliance Requirement Matrix

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

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

**(1)** Taken form Part 2, Matrix of Compliance Requirements, of the [OMB Compliance Supplement](https://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf). When Part 2 of the Compliance Supplement indicates that a type of compliance requirement is not applicable, the remaining assessments for the compliance requirement are not applicable.

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

**(3)** Refer to the 2019 AICPA Audit Guide, Government Auditing Standards and Single Audits, chapter 10, Compliance Auditing Applicable to Major Programs, for considerations relating to assessing inherent risk of noncompliance for each direct and material type of compliance requirement. The auditor is expected to document the inherent risk assessment for each direct and material compliance requirement.

**(4)** Refer to the 2019 AICPA Audit Guide, Government Auditing Standards and Single Audits, chapter 9, Consideration of Internal Control over Compliance for Major Programs, for considerations relating to assessing control risk of noncompliance for each direct and material types of compliance requirement. To determine the control risk assessment, the auditor is to document the five internal control components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (that is, control environment, risk assessment, control activities, information and communication, and monitoring) for each direct and material type of compliance requirement. Keep in mind that the auditor is expected to perform procedures to obtain an understanding of internal control over compliance for federal programs that is sufficient to plan the audit to support a low assessed level of control risk. If internal control over compliance for a type of compliance requirement is likely to be ineffective in preventing or detecting noncompliance, then the auditor is not required to plan and perform tests of internal control over compliance. Rather, the auditor must assess control risk at maximum, determine whether additional compliance tests are required, and report a significant deficiency (or material weakness) as part of the audit findings. The control risk assessment is based upon the auditor's understanding of controls, which would be documented outside of this template. Auditors may use the practice aid, Controls Overview Document, to support their control assessment. The Controls Overview Document assists the auditor in documenting the elements of COSO, identifying key controls, testing of those controls, and concluding on control risk. The practice aid is available in either a checklist or narrative format.

**(5)** Audit risk of noncompliance is defined in AICPA, Professional Standards, vol. 1, AU-C 935, as the risk that the auditor expresses an inappropriate opinion on the entity's compliance when material noncompliance exists. Audit risk of noncompliance is a function of the risks of material noncompliance and detection risk of noncompliance.

**(6)** CFAE included the typical monetary vs. nonmonetary determinations for each compliance requirement in this program. However, auditors should tailor these assessments as appropriate based on the facts and circumstances of their entity’s operations. The 2019 AICPA Single Audit Guide 10.54 states the auditor's tests of compliance with compliance requirements may disclose instances of noncompliance. The Uniform Guidance refers to these instances of noncompliance, among other matters, as “audit findings.” Such findings may be of a monetary nature and involve questioned costs or may be nonmonetary and not result in questioned costs. AU-C 935.13 & .A7 require auditors to establish and document two materiality levels: (1) a materiality level for the program as a whole. The column above documents quantitative materiality at the COMPLIANCE REQUIREMENT LEVEL for each major program; and (2) a second materiality level for the each of the applicable 12 compliance requirement listed in Appendix XI to Part 200.

*Note:*

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

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

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

*(Source: AOS CFAE)*

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

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

# Part I – OMB Compliance Supplement Information

### I. Program Objectives

The primary objective of the Community Development Block Grants (CDBG)/State’s Program and Non-Entitlement Grants in Hawaii (State CDBG Program) is the development of viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low- and moderate-income. This objective can be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of three national objectives. Second, the grantee must spend at least 70 percent of its funds over a period of up to 3 years, as specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons.

The Housing and Economic Recovery Act of 2008 (HERA) (Pub. L. No. 110-289, July 30, 2008) provided funds for emergency assistance for redevelopment of abandoned and foreclosed homes and residential properties, and provides under a rule of construction that, unless HERA provides otherwise, the grants are to be considered CDBG funds. The grant program under Title III is referred to as the Neighborhood Stabilization Program (NSP). The NSP funding referred to above is the funding provided under HERA. These HERA funds are also referred to as NSP1 in the Neighborhood Stabilization Program (see CFDA 14.256, II, “Program Procedures”). Additional funding for the NSP was authorized by Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act (Pub. L. No. 111-203, July 21, 2010) and is referred to as NSP3. **NSP funding provided under the American Recovery and Reinvestment Act of 2009 (ARRA) is referred to as NSP2 and NSP-TA, which are covered by the Neighborhood Stabilization Program (Recovery Act Funded) (CFDA 14.256) and audited separately.**

CDBG Disaster Recovery (CDBG-DR) funding is authorized under Title I of the Housing and Community Development Act of 1974, as amended. Public Laws are the appropriation acts that provided funding for each disaster: Public Law (PL) 115-23, PL 115-27, PL 115-56 (Division B), PL 115-31 (Sec. 421), PL 114-254, PL 114-223, PL 114-113, PL 113-2, PL 112-55, PL 111-212, PL 110-329, PL 110-252, PL 110-16, PL 109-234, PL 109-148, PL 108-324, PL 107-206, PL 107-117, PL 107-73, and PL 107-38.

(Source: *2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### II. Program Procedures

1. **Overview**

CDBG funds are provided, according to a statutory formula, to those States that elect to administer their CDBG non-entitlement funds. The States, in turn, distribute the funds to units of general local government that do not qualify for grants under the CDBG Entitlement Program. The non-entitlement counties in Hawaii are handled differently than Entitlement grantees in the following ways: (1) their funding comes from Section 106(d) of the Housing and Community Development Act of 1974, as amended (42 USC 5306(d)); (2) funds are distributed using the formula contained in 24 CFR section 570.429(c); reallocations due to grant reductions, or funds not applied for, go to the other non-entitlement counties in Hawaii on a pro rata basis (24 CFR section 570.429(d)); (3) non-entitlement counties are not eligible to use the exception criteria in 24 CFR section 570.208(a)(1)(ii); and (4) 24 CFR section 570.307 (Urban Counties) and 24 CFR section 570.308 (Joint Requests) would not apply to non-entitlement counties in Hawaii. Except for these differences, non-entitlement counties in Hawaii should follow the requirements of CDBG Entitlement Grants (CFDA 14.218). For the CDBG program, in addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. The State rules should be reviewed before beginning the audit (24 CFR sections 570.480 and 570.481).

1. **Subprograms/Programs Elements**

The NSP1 and NSP3 grants are special CDBG allocations to address the problem of abandoned and foreclosed homes. The HERA and the Dodd-Frank Act established the need, targets the geographic areas, and limits the eligible uses of NSP funds. A State choosing to carry out an activity directly must apply the requirements of 24 CFR section 570.483(b) to determine whether the activity has met the low-, moderate-, and middle-income national objective. It is noted that Section 2301 (f)(3)(A) of HERA defines eligible individuals and families as those that do not exceed 120 percent of area median income.

NSP3 requirements are in the NSP Notice published on October 19, 2010 (75 FR 64322-64348), which lists allocations, requirements, and waivers. The NSP3 Notice incorporates the NSP1 Bridge Notice, changes made by ARRA, and additional changes and clarification. The Notices are available at [https://www.hudexchange.info/nsp/nsp-laws-regulations-and-federal-register- notices/.](https://www.hudexchange.info/nsp/nsp-laws-regulations-and-federal-register-notices/)

HUD provides flexible grants to help cities, counties, and States recover from Presidentially declared disasters, especially in low-income areas, subject to availability of supplemental appropriations. In response to Presidentially declared disaster, Congress may appropriate additional funding for the Community Development Block Grant (CDBG) Program as Disaster Recovery grants to rebuild the affected areas and provide crucial seed money to start the recovery process. Since CDBG Disaster Recovery (CDBG-DR) assistance may fund a broad range of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources.

The Federal Register Notices that govern the use of CDBG-DR funds are available at (<https://www.hudexchange.info/programs/cdbg-dr/cdbg-dr-laws-regulations-and-federal-register-notices> ). Auditors should consult the applicable Federal Register Notices for the specific CDBG-DR award allocated to the State.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### III. Source of Governing Requirements

The CDBG program is authorized under Title I of the Housing and Community Development Act of 1974, as amended (42 USC 5301). Implementing regulations may be found at 24 CFR part 570, subpart I, which was revised effective May 23, 2012.

The NSP1 is authorized by Title III of Division B of HERA. HUD published a “Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008,” (NSP Notice) that advises the public of the allocation formula, allocation amounts, the list of grantees, alternative requirements, and the waivers of regulations provided to grantees (see October 6, 2008, Federal Register, 73 FR 58330-58349).

The requirements of HERA have been updated by (1) a notice in the Federal Register, Docket No. FR-5255-N-02 (NSP1 Bridge Notice) on June 19, 2009 (74 FR 29223-29229), which provided revisions and technical corrections to the NSP Notice and changes to NSP made by ARRA; (2) a notice in the Federal Register, Docket No. 5321-N-03 (NSP Notice) on April 9, 2010 (75 FR 18228-18231) to note a change in definitions and modification to the NSP; (3) the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 (Pub. L. No. 111-203); and (4) a notice in the Federal Register, Docket No. FR-5447-N-01 (NSP3) on October 19, 2010 (75 FR 64322-64348) to incorporate the bridge notice, the changes made by ARRA, and additional changes and clarification. Most of these requirements were incorporated into the NSP3 Notice.

The Federal Register Notices that govern the use of CDBG-DR funds are available at (<https://www.hudexchange.info/programs/cdbg-dr/cdbg-dr-laws-regulations-and-federal-register-notices> ). Auditors should consult the applicable Federal Register Notices for the specific CDBG-DR award allocated to the State.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### IV. Other Information

Additional information about the NSP is available at the HUD NSP website at [https://www.hudexchange.info/programs/nsp/.](https://www.hudexchange.info/programs/nsp/)

The specific Notices relevant to this program and their web locations are as follows:

a. NSP Notice (Docket No. FR-5255-N-01) at <https://www.hudexchange.info/resources/documents/NSP1Notice.pdf>

b. NSP1 Bridge Notice (Docket No. FR-5255-N-02) at <https://www.hudexchange.info/resources/documents/nsp1_bridgenotice_061909.pdf>

c. NSP “Definition and Modification” Notice (Docket No. 5321-N-03) at [https://www.hudexchange.info/resources/documents/FedRegister\_NSPDefinitionChange. pdf](https://www.hudexchange.info/resources/documents/FedRegister_NSPDefinitionChange.pdf)

d. NSP3 Notice (Docket No. FR-5447-N-01) at <https://www.hudexchange.info/resources/documents/UnifiedNSP1NSP3Notice_101910.pdfdf>

e. Further, additional information about the CDBG-DR is available at the HUD CDBG-DR website at (<https://www.hudexcahnge.info/programs/cdbg-dr/cdbg-dr-laws-regulations-and-federal-register-notices/>)

Information on CDBG-DR program waivers issued by HUD can be found at (<https://www.hudexcahnge.info/programs/cdbg-dr/cdbg-dr-laws-regulations-and-federal-register-notices/>)

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

# Part II – Pass through Agency and Grant Specific Information

### Program Overview

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

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

* Community Housing Impact and Preservation Program \*
* Community Development Program
* Residential Public Infrastructure Program\*
* Economic Development Program \*
* Discretionary Grant Program
* New Horizons Program

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

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

*(Source: AOS CFAE)*

**Per** [**OCD Policy Notice OCD 15.01**](https://development.ohio.gov/files/cs/15-01%20-%20Responsibilty%20for%20Grant%20Administration.pdf)**, OCD ODSA does not permit subgranting of funds or subrecipient agreements with other local governments or agencies. Please contact CFAE if you have a client that appears to have subgranted the funds down to another local government or agency.**

Please refer to the appropriate *Ohio Fiscal Year XXXX Consolidated Plan* (submitted to U.S. Dept. of Housing and Urban Development, as part of the State’s application for federal funding) regarding the three programs emphasized above. See the OHCP Publications website for available Consolidated state Plans (<http://development.ohio.gov/cs/cs_ocp.htm>). The Ohio Consolidated Plan should be considered when testing the applicable 12 types of compliance requirements (e.g., administrative expenditure limits identified in the Ohio Consolidated Plan should be tested for in Part G of the FACCR, provided the specific grant agreement does not contradict the plan).

### Testing Considerations

Though the A-102 Common Rule and specified portions of 2 CFR part 200 do not apply to this program under federal requirements, ODSA has imposed the following general requirements: “Grantees receiving federal funds must comply with the following: 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures p.3 at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2) *& Appendix 1 of 2019 OMB Compliance Supplement)*

### Reporting

Note: See examples SEFA and Footnote shells available at <http://www.ohioauditor.gov/references/practiceaids.html>.

See additional SEFA Guidance in the “Single Audit SEFA 2019 Completeness Guide” located at <http://www.ohioauditor.gov/references/practiceaids.html>.

*(Source: CFAE)*

Beginning with grants awarded in 2014, some entities are now forming partnerships for the Community Housing Impact & Preservation (CHIP) / CDBG grants (with another City, County, etc.). See the [Program year (PY) 2018 CHIP Partnership Agreement Guidance](PY_2018_CHIP_Partnership_Agreement_Guidance.pdf).

In these partnerships, there is 1 lead entity whose name the grant is in – this is the entity whose SEFA the grant belongs on. All other non-lead partners to the grant are considered vendors/contractors, and therefore the grant does not get reported on their SEFA’s.

*(Source: Ohio Development Services Agency, Office of Community Development (OCD))*

* As for financial statement reporting, you need to consider the potential of a GASB 24 pass-through grant relationship. See AOS Bulletin 2000-008 for further guidance. In addition, for GAAP entities, you should review the grant documents and consider whether a receivable should be booked in accordance with GASB 33.

*(Source: AOS CFAE)*

# PART III – APPLICABLE COMPLIANCE REQUIREMENTS

## A. ACTIVITIES ALLOWED OR UNALLOWED

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

### OMB Compliance Requirements

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

For example, could a government use an imaginary Homeland Security grant to pay OP&F pension costs for its police force? To determine this, the client (and we) would look to the grant agreement to see if police activities (security of persons and property function cost classification) met the program objectives. Then, the auditor would look to Subpart E (provisions for selected items of cost [§ 200.420-200.475](2CFR200.420_thru_200.475.pdf)) to determine if pension costs (an object cost classification) are permissible. (200.431(g) states they are allowable, with certain provisions, so we would need to determine if the auditee met the provisions.) Both the client and we should look at 2 CFR 200 subpart E even if the grant agreement includes a budget by object code approved by the grantor agency. Also, keep in mind that granting agencies have codified 2 CFR 200 and some agencies have been granted exceptions to provisions within 2 CFR 200.

*(Source: AOS CFAE)*

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

**Source of Governing Requirements**

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Part 4 OMB Program Specific Requirements**

1. Section 105(a) of the Housing and Community Development Act of 1974 lists the activities eligible under the CDBG State’s Program, which include (a) the acquisition of real property; (b) the acquisition, construction, reconstruction, or installation of public works, facilities and site, or other improvements, including those that promote energy efficiency; (c) code enforcement in deteriorated or deteriorating areas; (d) clearance, demolition, reconstruction, rehabilitation, and removal of buildings and improvements; (e) removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (f) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (g) disposition of real property acquired under this program; (h) provision of public services (subject to limitations contained in the CDBG regulations); (i) payment of the non-Federal share for another grant program that is part of the assisted activities; (j) payment to complete a Title 1 Federal Urban Renewal project; (k) relocation assistance; (l) planning activities; (m) administrative costs; (n) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (o) assistance to neighborhood-based nonprofit organizations, local development corporations, nonprofit organizations serving the development needs of communities in non- entitlement areas to carry out a neighborhood revitalization or community economic development or energy conservation project; (p) activities related to development of energy use strategies; (q) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (r) rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937; (s) technical assistance to public or private entities for capacity building (exempt from the planning/administration cap); (t) housing services related to HOME-funded activities; (u) assistance to institutions of higher education to carry out eligible activities; (v) assistance to public and private entities (including for-profits) to assist micro-enterprises; (w) payment for repairs and operating expenses for acquired “in Rem” properties; (x) direct home ownership assistance to facilitate and expand home ownership among persons of low-and moderate-income; (y) lead-based paint hazard evaluation and removal; and (z) construction or improvement of tornado-safe shelters for residents of manufactured housing and provision of assistance to nonprofit and for-profit entities for such construction or improvement (42 USC 5305; 24 CFR section 570.482(a)). Additional CDBG-DR eligible activities can be found in the applicable Federal Register Notices.

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

3. States and non-entitlement local government grant recipients may have loans guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974. Guaranteed loan funds may be used only for the following activities: (a) acquisition of real property; (b) housing rehabilitation; (c) rehabilitation of publicly owned real property; (d) eligible CDBG economic development activity; (e) relocation payments, (f) clearance, demolition, and removal; (g) payment of interest on Section 108 guaranteed obligations; (h) payment of issuance and other costs associated with private-sector financing under this subpart; (i) site preparation related to redevelopment or use of real property acquired or rehabilitated pursuant to this subpart or for economic development purposes; (j) construction of housing by nonprofit organizations for homeownership under Section 17(d) of the U.S. Housing Act of 1937 (12 USC 1715(l)) or Title VI of the Housing and Community Development Act of 1987; (k) debt service reserve; (l) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements that serve “colonias” (as defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992); and (m) acquisition, construction, reconstruction, rehabilitation, or installation of public facilities (except for buildings for the general conduct of government), public streets, sidewalks, and other site improvements and public utilities (24 CFR sections 570.700 through 570.710).

4. For NSP1 and NSP3 funds, HERA requirements have superseded some CDBG requirements to allow for eligible uses in Section 2301(c)(3) of HERA. The NSP categories and CDBG entitlement regulations are listed in Section II.H.3.a. of the NSP3 Notice, 75 FR 64332-64333. Section II.A. of Docket No. 5321-N-03 (NSP Notice) provided definitional changes to “Abandoned” and “Foreclosed” properties, which expanded the inventory of available properties under NSP. In addition, the date for a “Notice of Foreclosure” was specified in Section 1497(b)(2) of Pub. L. No. 111-203. The NSP eligible uses are to:

a. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties.

b. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon for later sale, rent or redevelopment.

c. Establish and operate land banks for homes that have been foreclosed upon (Section A of NSP Bridge Notice clarified that NSP funds can be used to establish and operate land banks.

d. Demolish blighted structures.

e. Redevelop demolished or vacant properties.

The NSP Notice lists the CDBG-eligible activities that HUD has determined best correlate to these specific NSP-eligible uses. Grantees must receive written HUD approval to undertake activities other than those listed in Section II.H, Eligibility and Allowable Costs, of the NSP Notice (Section 2301(c)(3) of HERA; Section II.H. of NSP Notice, Section II.A. of Docket No. 5321-N-03 (NSP Notice), and Section II.H.3.a. of the NSP3 Notice, 75 FR 64332-64333).

5. For NSP1 and NSP3 funds, NSP requirements supersede existing CDBG requirements (see III.A.1) to permit the use of only the low- and moderate-income national objective for NSP-assisted activities. A NSP activity may not qualify using the “prevent or eliminate slums and blight” or “address urgent community development needs” national objectives. The HERA redefines and supersedes the definition of “low- and moderate-income,” effectively allowing households whose incomes exceed 80 percent of area median income but do not exceed 120 percent of median income to qualify as if their incomes did not exceed the published low- and moderate-income levels of the regular CDBG program (Section II.E. of NSP3 Notice, 75 FR 64329-64330). HUD will refer to this new income group as “middle income” and maintain the regular CDBG definitions of “low-income” and “moderate-income” currently in use (Section 2301(f)(3)(A) of HERA).

6. For purposes of NSP only, an activity may meet the HERA established low- and moderate-income national objective if the assisted activity (1) provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income; (2) serves an area in which at least 51 percent of the residents have incomes at or below 120 percent of area median income; or (3) serves a limited clientele whose incomes are at or below 120 percent of area median income (Section 2301(f)(3)(A) of HERA; Section II.E. of NSP1 Notice, 73 FR 58335-58336, NSP3 Notice, 75 FR 64329-64330).

7. The CDBG public benefit standards prohibit funding the following activities: (a) general promotion of the community as a whole; (b) assistance to professional sports teams; (c) assistance to privately-owned recreational facilities that serve a predominately higher-income clientele, where the recreational benefit to users or members clearly outweighs employment or other benefits to low- and moderate- income persons; (d) acquisition of land for which the specific proposed use has not yet been identified; and (e) assistance to a for-profit business while that business or any other business owned by the same person(s)/entity(ies) is the subject of unresolved findings of noncompliance relating to previous CDBG assistance provided by the recipient (24 CFR section 570.482(f)(4)(ii)). For CDBG-DR,, the public benefit standards are waived, please consult applicable Federal Register Notices.

8. For CDBG-DR, HUD allows funding for the following activities: (a) program administrative costs up to 5 percent of total grant amount and program income (24 CFR 570.206); (b) program planning costs up to 20 percent combined with administrative costs (24 CFR 570.205); (c) public services costs up to 15% of total grant amount and program income (24 CFR 570.201€, 570.207). In additional, the Secretary may provide waivers or specify alternative requirements if such waiver is not inconsistent with the overall purpose of Title I of the Housing and Community Development Act of 1974, However, the Secretary may not waive requirements related to fair housing, nondiscrimination, labor standards, and the environment. For CDBG-DR awards made after 2013 awards prohibit assistance for second homes and limit business assistance to small business, please consult Federal Register Notices.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

Determining Allowability of Costs

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

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

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 -* Grant Operations and Financial Management Policy and Procedures *(A)(2)(e) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

Auditors should refer to Part I of the Ohio Development Services Agency Housing Program Manual (Non-Participating Jurisdiction Housing Handbook - <http://development.ohio.gov/files/cs/HPM-Part1.pdf> )for more detail guidelines on allowable activities. Also, the grant agreement between ODSA and a grantee is a key document governing the local program. The grant agreement identifies the scope of the program and the funds available to implement that program, describes the responsibilities of each party and the timeframe within which activities are to take place.

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

*(Source: AOS CFAE &* [*http://development.ohio.gov/files/cs/HPM-Part1.pdf*](http://development.ohio.gov/files/cs/HPM-Part1.pdf)*)*

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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

### Audit Implications Summary

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

## B. ALLOWABLE COSTS/COST PRINCIPLES

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

### Applicability of Cost Principles

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

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

*(Source: AOS CFAE)*

The cost principles in [2 CFR part 200, subpart E](2CFR200_Subpart%20E.PDF) (Cost Principles), prescribe the cost accounting requirements associated with the administration of Federal awards by:

* States, local governments and Indian tribes
* Institutions of higher education (IHEs)
* Nonprofit organizations

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

**Source of Governing Requirements**

The requirements for allowable costs/cost principles are contained in [2 CFR part 200, subpart E](2CFR200_Subpart%20E.PDF), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The requirements for the development and submission of indirect (facilities and administration (F&A)) cost rate proposals and cost allocation plans (CAPs) are contained in [2 CFR part 200, Appendices III-VII](2CFR200_Appendix_III_thru_VII.pdf) as follows:

* Appendix III to Part 200—Indirect (F&A) Const Identification and Assignment and Rate Determination for Institutions of Higher Education (IHEs)
* Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
* Appendix V to Part 200—State/Local Government-Wide Central Service Cost Allocation Plans
* Appendix VI to Part 200—Public Assistance Cost Allocation Plans
* Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals

Except for the requirements identified below under “Basic Guidelines,” which are applicable to all types of non-Federal entities, this compliance requirement is divided into sections based on the type of non-Federal entity. The differences that exist are necessary because of the nature of the non-Federal entity organizational structures, programs administered, and breadth of services offered by some non-Federal entities and not others.

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Basic Guidelines**

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

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

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

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

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

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

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

7. Be adequately documented.

**Selected Items of Cost**

[2 CFR sections 200.420 through 200.475](2CFR200.420_thru_200.475.pdf) provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in [2 CFR sections 200.402 through 200.411](2CFR200.402_thru_411.pdf).

[List of Selected Items of Cost Contained in 2 CFR Part 200](Selected_Items_of_Cost_Part_3.2_ComplianceSupplement.pdf)

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

There are no Program Specific requirements for this compliance requirement.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii***)**

**Written Procedure Requirements:**

[2 CFR 200.302](2CFR200.302.pdf)(b)(7) requires written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles of this part and the terms and conditions of the Federal award.

[2 CFR 200.430](2CFR200.430.pdf) states that costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities; (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

[2 CFR 200.431](2CFR200.431.pdf) requires established written leave policies if the entity intends to pay fringe benefits.

[2 CFR 200.464](2CFR200.464.pdf)(a)(2) requires reimbursement of relocation costs to employees be in accordance with an established written policy must be consistently followed by the employer.

[2 CFR 200.474](2CFR200.474.pdf) requires reimbursement and/or charges to be consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies.

*(Source: CFAE/eCFR)*

### Additional Program Specific Information

Though the A-102 Common Rule and specified portions of 2 CFR part 200 do not apply to this program under federal requirements. ODSA has imposed the following general requirements: “Grantees receiving federal funds must comply with the following: 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures p.3 at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*) & Appendix 1 of 2019 OMB Compliance Supplement)*

**Ohio Development Services Agency**

Determining Allowability of Costs

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

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

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(e) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

Documentation of Approved Indirect Cost Rate Proposal

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(o) and OCD 18-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(n) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

Audit Costs

Only in situations where the grantee does not have excess administrative expenses exceeding the allowable percentage of the grant may OCD-awarded funds be used to pay for an audit. In these situations, funds must be drawn by the date required in the grant agreement. These funds may be held as part of the $5,000 balance of OCD-awarded funds on hand until the audit is completed and are therefore no subject to the 30-day rule.

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

The percentage of costs charged to the OCD-funded program for a single audit may not exceed the percent the OCD-awarded funds represent of the total federal funds audited for the fiscal year.

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (E)(5) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

### Indirect Cost Rate

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

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

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

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

**2 CFR PART 200**

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

**Introduction**

[2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF), and [Appendices III-VII](2CFR200_Appendix_III_thru_VII.pdf) establish principles and standards for determining allowable direct and indirect costs for Federal awards. This section is organized into the following areas of allowable costs: States and Local Government and Indian Tribe Costs (Direct and Indirect); State/Local Government Central Service Costs; and State Public Assistance Agency Costs.

***Cognizant Agency for Indirect Costs***

[2 CFR part 200, Appendix V, paragraph F](2CFR200_Appendix_V_Para_F.pdf), provides the guidelines to use when determining the Federal agency that will serve as the cognizant agency for indirect costs for States, local governments, and Indian tribes. References to the “cognizant agency for indirect costs” are not equivalent to the cognizant agency for audit responsibilities, which is defined in [2 CFR section 200.18](2CFR200.18.pdf). In addition, the change from the term “cognizant agency” in OMB Circular A-87 to the term “cognizant agency for indirect costs” in 2 CFR part 200 was not intended to change the scope of cognizance for central service or public assistance cist allocation plans.

For indirect cost rates and departmental indirect cost allocation plans, the cognizant agency is the Federal agency with the largest value of direct Federal awards (excluding pass-through awards) with a governmental unit or component, as appropriate. In general, unless different arrangements are agreed to by the concerned Federal agencies or described in 2 CFR part 200, Appendix V, paragraph F, the cognizant agency for central service cost allocation plans is the Federal agency with the largest dollar value of total Federal awards (including pass-through awards) with a governmental unit.

Once designated as the cognizant agency for indirect costs, the Federal agency remains so for a period of 5 years. In addition, 2 CFR part 200, Appendix V, paragraph F, lists the cognizant agencies for certain specific types of plans and the cognizant agencies for indirect costs for certain types of governmental entities. For example, HHS is cognizant for all public assistance and State-wide cost allocation plans for all States (including the District of Columbia and Puerto Rico), State and local hospitals, libraries, and health districts and the Department of the Interior (DOI) is cognizant for all Indian tribal governments, territorial governments, and State and local park and recreational districts.

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

The indirect cost rate proposal (ICRP) provides the documentation prepared by a State/local government/Indian tribe department or agency to substantiate its request for the establishment of an indirect cost rate. The indirect costs include (1) costs originating in the department or agency of the governmental unit carrying out Federal awards, and (2) for States and local governments, costs of central governmental services distributed through the State/local government-wide central service CAP that are not otherwise treated as direct costs. The ICRPs are based on the most current financial data and are used to either establish predetermined, fixed, or provisional indirect cost rates or to finalize provisional rates (for rate definitions refer to [2 CFR part 200, Appendix VII, paragraph B](2CFR200_Appendix_VII_Para_B.pdf)).

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

**Additional Control Test Objectives for Written Procedures**

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

* UG requires written policies for the requirements outlined in [2 CFR 200.302](2CFR200.302.pdf)(b)(7), [2 CFR 200.430](2CFR200.430.pdf), [2 CFR 200.431](2CFR200.431.pdf), [2 CFR 200.464](2CFR200.464.pdf)(a)(2), and [2 CFR 200.474](2CFR200.474.pdf)*.*
* Document whether the non-Federal entity established written procedures consistent with the following requirements:
  + 2 CFR 200.302(b)(7) for determining the allowability of costs in accordance with Subpart E-Cost Principles.
  + 2 CFR 200.430 for allowability of compensation costs.
  + 2 CFR 200.431 for written leave policies.
  + 2 CFR 200.464(a)(2) for reimbursement of relocation costs.
  + 2 CFR 200.474 for travel reimbursements.
* It is auditor judgment how to report instances where the entity either lacks having a written policy or their written policy is insufficient to meet the requirements of 2 CFR 200.302(b)(7), 2 CFR 200.430, 2 CFR 200.431, 2 CFR 200.464(a)(2), and 2 CFR 200.474.
  + While auditors would normally use a written policy as the basis for the compliance control, there could be other key controls in place to ensure program compliance.
  + The lack of a policy would be noncompliance, which could rise to the level of material noncompliance and even a control deficiency (SD / MW) if there were underlying internal control deficiencies.
    - If there are key controls in place operating effectively, AOS auditors would report the lack of the required UG policy as a management letter citation. However, in subsequent audits, evaluate if the noncompliance should be elevated if not adopted. Written policies aid in consistency and adherence to requirements strengthening internal control processes.

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| ***Direct Costs***  Test a sample of transactions for conformance with the following criteria contained in 2 CFR part 200, as applicable:   1. If the auditor identifies unallowable direct costs, the auditor should be aware that “directly associated costs” might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable. 2. Costs were approved by the Federal awarding agency, if required (see the above table (Selected Items of Cost, Exhibit 1) or [2 CFR section 200.407](2CFR200.407.pdf) for selected items of cost that require prior written approval). 3. Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).   d. Costs were necessary and reasonable for the performance of the Federal award and allocable under the principles of [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF).  e. Costs conformed to any limitations or exclusions set forth in 2 CFR part 200, subpart E, or in the Federal award as to types or amount of cost items.  f. Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the State/local government/Indian tribe department or agency.  g. Costs were accorded consistent treatment. Costs were not assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.  h. Costs were not included as a cost of any other federally financed program in either the current or a prior period.  i. Costs were not used to meet the cost-sharing or matching requirements of another Federal program, except where authorized by Federal statute.  j. Costs were adequately documented.  ***Indirect Costs***  a. If the State/local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.  b. *General Audit Procedures* – The following procedures apply to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of [2 CFR sections 200.402 through 200.411](2CFR200.402_thru_411.pdf).  (b) The principles to establish allowability or unallowability of certain items of cost ([2 CFR sections 200.420 through 200.475](2CFR200.420_thru_200.475.pdf)).  Note: While several selected items of cost are included in Exhibit 1 , one item to note is *Compensation - Personnel Services*, (formally referred to as Time and Effort/Semi Annual Certification). See [2 CFR 200.430](2CFR200.430.pdf).  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for State, Local Government, and Indian Tribe ICRPs (see also the AOS discussion on* [*testing the ICRP*](Testing%20the%20ICRP%20discussion.pdf)*)*  (1) Verify that the ICRP includes the required documentation in accordance with [2 CFR part 200, Appendix VII, paragraph D](2CFR200_Appendix_VII_Para_D.pdf).  (2) *Testing of the ICRP* – There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with 2 CFR part 200). Should there be audit exceptions, corrective action may be taken earlier to minimize questioned costs. In the next year’s audit, the auditor should complete testing and verify management’s representations against the completed ICRP.  \The following procedures are some acceptable options the auditor may use to obtain assurance that the costs collected in the cost pools and the allocation methods used are in compliance with [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF):  (a) *Indirect Cost Pool* – Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR part 200.  (i) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).  (ii) Identify significant changes in expense categories between the prior ICRP and the current ICRP. Test a sample of transactions to verify the allowability of the costs.  (iii) Trace the central service costs that are included in the indirect cost pool to the approved State/local government or central service CAP or to plans on file when submission is not required.  (b) *Direct Cost Base* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR part 200 and produce an equitable distribution of costs.  (i) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.  (ii) If the direct cost base is not limited to direct salaries and wages, determine that distorting items are excluded from the base. Examples of distorting items include capital expenditures, flow-through funds (such as benefit payments), and subaward costs in excess of $25,000 per subaward.  (iii) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).  (c) *Other Procedures*  (i) Examine the records for employee compensation to ascertain if they are accurate, and the costs are allowable and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged. (Refer to [2 CFR section 200.430](2CFR200.430.pdf) for additional information on support of salaries and wages.)  (ii) For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.  (3) *Testing of Charges Based Upon the ICRA* – Perform the following procedures to test the application of charges to Federal awards based upon an ICRA:  (a) Obtain and read the current ICRA and determine the terms in effect.  (b) Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current-year direct costs do not include costs items that were treated as indirect costs in the base year).  (4) *Other Procedures* – No Negotiated ICRA  (a) If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, the auditor should determine whether documentation exists to support the costs. Where the auditee has documentation, the suggested general audit procedures under paragraph 3.b above should be performed to determine the appropriateness of the indirect cost charges to awards.  (b) If an indirect cost rate has not been negotiated by a cognizant agency for indirect costs, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation. |

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

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

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. For local governments that are not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.  b. *General Audit Procedures for State/Local Government-Wide Central Service CAPs* – The following procedures apply to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of [2 CFR part 200, subpart E](2CFR200_subpart%20E.PDF) (sections [200.402 through 200.411](2CFR200.402_thru_411.pdf)).  (b) The principles to establish allowability or unallowability of certain items of cost [(2 CFR sections 200.420 through 475](2CFR200.420_thru_200.475.pdf)).  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for State/Local Government-Wide Central Service CAPs*  (1) Verify that the central service CAP includes the required documentation in accordance with [2 CFR part 200 Appendix V, paragraph E](2CFR200_Appendix_V_Para_E.pdf).  (2) *Testing of the State/Local Government-Wide Central Service CAPs – Allocated Section I Costs*  (a) If new allocated central service costs were added, review the justification for including the item as Section I costs to ascertain if the costs are allowable (e.g., if costs benefit Federal awards).  (b) Identify the central service costs that incurred a significant increase in actual costs from the prior year’s costs. Test a sample of transactions to verify the allowability of the costs.  (c) Ascertain if the bases used to allocate costs are appropriate, i.e., costs are allocated in accordance with relative benefits received.  (d) Ascertain if the proposed bases include all activities that benefit from the central service costs being allocated, including all users that receive the services. For example, the State-wide central service CAP should allocate costs to all benefiting State departments and agencies, and, where appropriate, non-State organizations, such as local government agencies.  (e) Perform an analysis of the allocation bases by selecting agencies with significant Federal awards to determine if the percentage of costs allocated to these agencies has increased from the prior year. For those selected agencies with significant allocation percentage increases, ascertain if the data included in the bases are current and accurate.  (f) Verify that carry-forward adjustments are properly computed in accordance with [2 CFR part 200, Appendix V, paragraph G.3](2CFR200_Appendix_V_Para_G(3).pdf).  (3) *Testing of the State/Local Government-Wide Central Service CAPs – Billed Section II Costs*  (a) For billed central service activities accounted for in separate funds (e.g., internal service funds), ascertain if:  (i) Retained earnings/fund balances (including reserves) are computed in accordance with the cost principles;  (ii) Working capital reserves are not excessive in amount (generally not greater than 60 calendar days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs, and debt principal costs); and  (iii) Adjustments were made when there is a difference between the revenue generated by each billed service and the actual allowable costs.  (b) Test to ensure that all users of services are billed in a consistent manner. For example, examine selected billings to determine if all users (including users outside the governmental unit) are charged the same rate for the same service.  (c) Test that billing rates exclude unallowable costs, in accordance with the cost principles and Federal statutes.  (d) Test, where billed central service activities are funded through general revenue appropriations, that the billing rates (or charges) were developed based on actual costs and were adjusted to eliminate profits.  (e) For self-insurance and pension funds, ascertain if the fund contributions are appropriate for such activities as indicated in the current actuarial report.  (f) Determine if refunds were made to the Federal Government for its share of funds transferred from the self-insurance reserve to other accounts, including imputed or earned interest from the date of the transfer. |

### Allowable Costs – State Public Assistance Agency Costs

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

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

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| This may be applicable to public assistance programs at the local level  a. Since a significant amount of the costs in the public assistance CAP are allocated based on employee compensation reporting systems, it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.  b. *General Audit Procedures* – The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards.  (1) Test a sample of transactions for conformance with:  (a) The criteria contained in the “Basic Considerations” section of 2 CFR part 200 ([sections 200.402 through 200.411](2CFR200.402_thru_411.pdf)).  (b) The principles to establish allowability or unallowability of certain items of cost ([2 CFR sections 200.420 through 200.475](2CFR200.420_thru_200.475.pdf)).  (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.  c. *Special Audit Procedures for Public Assistance CAPs*  (1) Verify that the State public assistance agency is complying with the submission requirements, i.e., an amendment is promptly submitted when any of the events identified in [45 CFR section 95.509](45CFR95.509.pdf) occur.  (2) Verify that public assistance CAP includes the required documentation in accordance with [45 CFR section 95.507](45CFR95.507.pdf).  (3) *Testing of the Public Assistance CAP* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of the cost principles and produce an equitable distribution of costs. Appropriate detailed tests may include:  (a) Examining the results of the employee compensation system or in addition the records for employee compensation to ascertain if they are accurate, allowable, and properly allocated to the various functional and programmatic activities to which salary and wage costs are charged.  (b) Since the most significant cost pools in terms of dollars are usually allocated based upon the distribution of income maintenance and social services workers’ efforts identified through random moment time studies, determining whether the time studies are implemented and operated in accordance with the methodologies described in the approved public assistance CAP. For example, verifying the adequacy of the controls governing the conduct and evaluation of the study, and determining that the sampled observations were properly selected and performed, the documentation of the observations was properly completed, and the results of the study were correctly accumulated and applied. Testing may include observing or interviewing staff who participate in the time studies to determine if they are correctly recording their activities.  (c) Testing statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation bases are reasonable, updated as necessary, and do not contain any material omissions.  (4) *Testing of Charges Based Upon the Public Assistance CAP* – If the approved public assistance CAP is determined to be in compliance with the cost principles and produces an equitable distribution of costs, verify that the methods of charging costs to Federal awards are in accordance with the approved CAP and the provisions of the approval documents issued by HHS. Detailed compliance tests may include:  (a) Verifying that the cost allocation schedules, supporting documentation and allocation data are accurate and that the costs are allocated in compliance with the approved CAP.  (b) Reconciling the allocation statistics of labor costs to employee compensation records (e.g., random moment sampling observation forms).  (c) Reconciling the allocation statistics of non-labor costs to allocation data, (e.g., square footage or case counts).  (d) Verifying direct charges to supporting documents (e.g., purchase orders).  (e) Reconciling the costs to the Federal claims. |

### Cost Principles for Nonprofit Organizations

If the federal program is an NPO, pull up the 2019 OMB compliance supplement [Allowable Costs/Cost Principles section](Cost%20Principles%20for%20Nonprofit%20Organizations.pdf). This section can be completed as an addendum to the FACCR, saved within in your working papers and can the cross referenced section can also be added on this page.

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

### Audit Implications Summary

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

## F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

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

### OMB Compliance Requirements

***Equipment Management -- Grants and Cooperative Agreements***

Equipment means tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000 ([2 CFR section 200.33](2CFR200.33.pdf)). Title to equipment acquired by a non-Federal entity under grants and cooperative agreements vests in the non-Federal entity subject to certain obligations and conditions (2 CFR section 200.313(a)).

*Non-Federal Entities Other than States – See here for* [*2 CFR 200.313 (a)-(e)*](2CFR200.313.pdf)

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

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

7. When original or replacement equipment acquired under a Federal award is no longer needed for a Federal program (whether the original project or program or other activities currently or previously supported by the Federal government), the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the award. Items of equipment with a current per-unit fair market value of $5,000 or less may be retained, sold, or otherwise disposed of with no further obligation to the Federal awarding agency. If the Federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold. The Federal awarding agency is entitled to the Federal interest in the equipment, which is the amount calculated by multiplying the current market value or sale proceeds by the Federal agency’s participation in total project costs ([2 CFR section 200.313](2CFR200.313.pdf)(e) and [200.41](2CFR200.41.pdf)).

The COFAR’s Frequently Asked Questions includes the following, which addresses the relationship between the requirement for property records to show the percentage of Federal participation in the project costs and the calculation of the Federal interest.

.313-2 Changes to Equipment Inventory Systems.

*Section 200.313(d)(1) of the guidance specifies the attributes that must be maintained in property records of the non-Federal entity. For non-Federal entities that have followed Circular A-110, there are two changes: “percentage of Federal participation in the project costs” (Uniform Guidance) versus “information from which one can calculate the percentage of Federal participation in the cost of the equipment” (A-110.34(f)(1)(vi), and “the location, use and condition of the property” (Uniform Guidance) versus “location and condition of the equipment and the date the information was reported” (A-110.34(f)(1)(vii). Are non-Federal entities expected to change the attributes of their property records and ultimately be required to implement costly changes to their existing equipment inventory systems?*

No. The requirements for property records have not substantively changed in the Uniform Guidance. The requirements for property records are meant to ensure that the non-Federal entity maintains an equipment inventory system that demonstrates the Federal entity has an effective system of controls to account for and track equipment that has been acquired with Federal funds. Non-Federal entities are not expected to change their equipment inventory systems or the data elements contained in those systems, if they are in compliance with the current requirements in Circular A-110. In the examples in question:

- The percentage of Federal participation in the cost of equipment in Circular A-110 was identical to the percentage of Federal participation in the cost of the original project or program. One could infer that from the amount of compensation a recipient was required under 2 CFR 215.34(g) to make to a Federal agency at the time of disposition—i.e., “compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the equipment.” The A-110 requirement in 2 CFR 215.34 for the recipient’s records to have information from which one could calculate the percentage of Federal participation in the cost of the equipment then required two numbers, the percentage of Federal participation in the original project or program and information from which one could derive the current fair market value. The Uniform Guidance makes that more explicitly clear through the definition of Federal interest in [2 CFR 200.41](2CFR200.41.pdf); and

-“the location, use and condition of the property” is referring to an indicator in the property records that the specific equipment item I active and linked with the appropriate Federal award, identical to the requirement in Circular A-110.

**Note**: Intangible property that is acquired under a Federal award, rather than developed or produced under the award, is subject the requirements of [2 CFR section 200.313(e)](2CFR200.313.pdf) regarding disposition ([2 CFR section 200.315(a)](2CFR200.315a.pdf)).

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

Title to real property acquired or improved by non-Federal entities under grants and cooperative agreements vests in the non-Federal entity subject to the obligations and conditions specified in [2 CFR section 200.311](2CFR200.311.pdf) (2 CFR section 200.311(a)). Real property will be used for the originally authorized purpose as long as needed for that purpose, during which time the non-Federal entity must not dispose of or encumber title to or other interests in the real property (2 CFR section 200.311(b)).

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

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

Equipment and real property management requirements for cost-reimbursement contracts are specified in the FAR clause at [48 CFR section 52.245-1](48CFR52.245.1.pdf). Federal government property as defined in the FAR includes both equipment and real property. Title to Federal government property acquired by a non-Federal entity normally vests in the Federal government, unless otherwise noted in the contract terms and conditions. The FAR requires:

1. A system of internal controls to manage (control, use, preserve, protect, repair, and maintain) Federal government property and a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Federal government property.
2. Federal government property must be used for performing the contract for which it was acquired unless otherwise provided for in the contract or approved by the Federal awarding agency.
3. Property records must be maintained and include the name, part number and description, and other elements as necessary and required in accordance with the terms and conditions of the contract, quantity received, unit acquisition cost, unique-item identifier, accountable contract number, location, disposition, and posting reference and date of transaction.
4. A physical inventory must be periodically performed, recorded, and disclosed.

Except as provided for in the contract, the non-Federal entity must not dispose of inventory until authorized by the Federal awarding agency. The non-Federal entity may purchase the property at the unit acquisition cost if desired or make reasonable efforts to return unused property to the appropriate supplier at fair market value.

**Source of Governing Requirements**

The requirements for equipment and real property are contained in [2 CFR section 200.313](2CFR200.313.pdf) (equipment), [2 CFR section 200.311](2CFR200.311.pdf) (real property), [48 CFR section 52.245-1](48CFR52.245.1.pdf) (equipment and real property), program legislation, Federal awarding agency regulations, and the terms and conditions of the Federal award.

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Part 4 OMB Program Specific Requirements**

There are no Program Specific requirements for this compliance requirement.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

**Ohio Development Services Agency**

a. *Purchase of Equipment:*

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

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

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

b. *Disposition of Equipment:*

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

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

c. *Inventory Record Requirements:*

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

d. *Control System Requirements:*

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (B)(1)(a)-(d) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

Proceeds derived after closeout, from the disposition of real property which was acquired with grant funds should be accounted for in accordance with OCD Program Policy Notice 15-03: Program Income Policy.

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (E)(6)(c) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Inventory Management of Equipment Acquired Under Federal Awards  a. Identify equipment acquired and trace selected purchases to the property records. Verify that the property records contain the required information.  b. Verify that the required physical inventory of equipment was performed. Test whether any differences between the physical inventory and equipment records were resolved.  c. Select a sample from all equipment acquired under Federal awards from the property records and physically inspect the equipment and determine whether the equipment is appropriately safeguarded and maintained.  2. Disposition of Equipment Acquired Under Federal Awards  a. Identify equipment dispositions for the audit period and perform procedures to verify that the dispositions of equipment acquired under Federal awards were properly reflected in the property records.  b. For dispositions of equipment acquired under grants and cooperative agreements with a current per-unit fair market value of $5,000 or more, verify whether the Federal awarding agency was reimbursed for the Federal portion of the current market value or sales proceeds.  c. For dispositions of equipment acquired under cost-reimbursement contracts, verify that the non-Federal entity followed Federal awarding agency disposition instructions.  3. Disposition of Real Property Acquired Under Federal Awards  a. Identify real property dispositions for the audit period and determine whether such real property was acquired or improved under Federal awards.  b. For dispositions of real property acquired or improved under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the Federal awarding agency or pass-through entity, which normally require reimbursement to the Federal awarding agency for the Federal portion of net sales proceeds or fair market value at the time of disposition, as applicable. |

### Audit Implications Summary

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

## H. PERIOD OF PERFORMANCE

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

### OMB Compliance Requirements

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity ([2 CFR section 200.309](2CFR200.309.pdf)).

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award ([2 CFR section 200.343(b)](2CFR200.343(b).pdf)). When used in connection with a non-Federal entity’s utilization of funds under a Federal award, “obligations” means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period ([2 CFR section 200.71](2CFR200.71.pdf)).

**Source of Governing Requirements**

The requirements for the period of performance are contained in 2 CFR section 200.71 (definition of “obligations”), [2 CFR section 200.77](2CFR200.77.pdf) (definition of “period of performance”), 2 CFR section 200.309 (period of performance), [2 CFR section 200.343](2CFR200.343.pdf) (closeout), program legislation, Federal awarding agency regulations; and the terms and conditions of the award.

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Part 4 OMB Program Specific Requirements**

1. NSP1 grantees are required to expend an amount equal to or greater than the initial allocation of NSP1 funds within 4 years of receipt of those funds (Section II.M. of NSP3 Notice (75 FR 64336-64337)).

2. NSP3 grantees are required to expend an amount equal to or greater than 50 percent of their initial allocation of NSP3 funds within 2 years of receipt of those funds and 100 percent of their initial allocation of NSP3 funds within 3 years of receipt of those funds (Section II.M. of NSP3 Notice (75 FR 64336-64337)).

3.CDBG-DR grantees are required to expend their grant funds as soon as possible following the execution of a grant agreement (obligation) with HUD (P.L.. 114-113, 114-223, 115-31, 115-56, 115-72, and 115-123). Moreover, CDBG-DR grantees are required to expend within 2 years of obligation (P.L.113-2. 112-55). Finally, CDBG-DR grantees are required to be expend within 6 years at obligation (P.L. 111-212, 110-329, 120-252, 110-116, 109-234, 109-148, 108-324, 107-206, 107-117, 107-72, 107-73, and 107-38).

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

**Ohio Development Services Agency**

Determining Allowability of Costs

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

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

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(e) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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

### Audit Implications Summary

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

## J. PROGRAM INCOME

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

### OMB Compliance Requirements

Program income is gross income earned by a non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance (unless there is a requirement for disposition of program income after the end of the period of performance as provided in [2 CFR section 200.307(f)](2CFR200.307(f).pdf)).

Program income ([2 CFR section 200.80](2CFR200.80.pdf)) includes, but is not limited to income from:

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

Program income does not include:

* Interest earned on advances of Federal funds.
* Except as otherwise provided in Federal statutes, regulations or the terms and conditions of the Federal award, rebates, credits, discounts and interest earned on any of them.
* Taxes, special assessments, levies, fines, and other such revenues raised by a non-Federal entity, unless the Federal award or Federal awarding agency regulations specifically identify the revenues as program income ([2 CFR section 200.307(c)](2CFR200.307(c).pdf)).
* The proceeds from the sale of equipment or real property acquired in whole or in part under the Federal award ([2 CFR section 200.307(d)](2CFR200.307(d).pdf)).
* Royalties or income earned by an institution of higher education or a nonprofit organization on inventions conceived or first actually reduced to practice in the performance of work under a funding agreement with a Federal agency that is shared with the inventor ([2 CFR section 200.307(g)](2CFR200.307(g).pdf); [37 CFR sections 401.2](37CFR401.2.pdf) and [401.14(k)](37CFR401.14(k).pdf); 35 USC 201(i), and 35 USC 202(c)(7)(B)).

If authorized by Federal regulations or the Federal award, costs incidental to the generation of program income may be deducted from gross income to determineprogramincome, provided those costs have not been charged to the Federal award ([2 CFR section 200.307(b)](2CFR200.307(b).pdf)).

Program income may be used in any of the following three methods, consistent with [2 CFR section 200.307(e)](2CFR200.307(e).pdf):

1. Deduction.

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

2. *Addition*.

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

3. *Cost Sharing or Matching*.

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

Unless Federal awarding agency regulations or the terms and conditions of the Federal award specify otherwise, non-Federal entities have no obligation to the Federal government regarding program income earned after the end of the period of performance ([2 CFR section 200.307(f)](2CFR200.307(f).pdf)).

**Source of Governing Requirements**

The requirements that apply to program income are contained in [2 CFR section 200.80](2CFR200.80.pdf) (definition of “program income”), [2 CFR section 200.307](2CFR200.307.pdf) (program income), program legislation, Federal awarding agency regulations, and the terms and conditions of the Federal award.

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Part 4 OMB Program Specific Requirements**

1. For the CDBG program**,** program income does not include income received in a single program year by a unit of general local government and its subrecipients if the total amount of such income does not exceed $35,000 (24 CFR section 570.489(e)(2)(i)).

2. Proceeds from the sale of real property purchased or improved with CDBG funds are not program income if the proceeds are received more than 5 years after closeout of the grant agreement between the State and the unit of general local government (24 CFR section 570.489(e)(2)(v)).

3. NSP revenue received by a State, unit of general local government or subrecipient that is directly generated from the use of CDBG funds (which includes NSP grant funds) constitutes CDBG program income. The CDBG definition of program income shall be applied to amounts received by States, units of general local government and subrecipients (24 CFR section 570.500; Section II.N. of NSP3 Notice, 75 FR 64322-64348).

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

b. Program income generated by NSP activities carried out pursuant to Sections 2301(c)(3) of HERA may be retained by the State or unit of general local government (Section 2301(c)(3) of HERA; Section B of NSP Bridge Notice).

4. For CDBG-DR, grantees that generate program income must expend those funds but grantees also have the option to transfer program income, to the annual CDBG Program.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

**Ohio Development Services Agency**

The OCD policies that apply to program income are determined on when the funds are received (not the grant that generated the program income).

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

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

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

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

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

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

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

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

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

B. CDBG Program Income does not include:

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

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

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

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

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

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

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

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

*(Source: ODSA OCD Program Policy Notice OCD 15-04 - Program Income/Revolving Loan Fund Administration at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

The Grant Operations and Financial Management Policy and Procedures states the following:

Program Income

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(p) and OCD 18-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(o) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

For additional information, see the 2018 Ohio Consolidated Plan at <https://development.ohio.gov/cs/cs_ocp.htm>.

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. *Identify Program Income*  a. Review the statutes, regulations, and terms and conditions of the Federal award applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.  b. Inquire of management and review accounting records to ascertain if program income was received.  2. *Determining or Assessing Program Income* – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that amounts collected were classified as program income only if collected from allowable sources.  3. *Recording of Program Income* – Perform tests to verify that all program income was properly recorded in the accounting records.  4. *Use of Program Income* – Perform tests to ascertain if program income was used in accordance with [2 CFR section 200.307(e)](2CFR200.307(e).pdf) and the program requirements set by the Federalawarding agency in its regulations and the terms and conditions of the award. |

### Audit Implications Summary

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

## L. REPORTING

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

### OMB Compliance Requirements

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

*Financial Reporting*

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

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

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

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

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

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

*Performance and Special Reporting*

Non-Federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB ([2 CFR section 200.328(b)(1)](2CFR200.328(b)(1).pdf)). They also may be required to submit special reports as required by the terms and conditions of the Federal award.

Compliance testing of performance and special reporting 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 statutes, regulations, contract or grant agreements pertaining to the program.

Performance and special reporting data specified in Part 4, “Agency Program Requirements,” and Part 5, “Clusters of Programs,” meet the above criteria.

**Source of Governing Requirements**

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

* Financial reporting, [2 CFR section 200.327](2CFR200.327.pdf)
* Monitoring and reporting program performance, [2 CFR section 200.328](2CFR200.328.pdf)
* Program legislation.
* Federal awarding agency regulations.
* The terms and conditions of the award.

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Part 4 OMB Program Specific Requirements**

**1. Financial Reporting**

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

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

c. SF-425, *Federal Financial Report* – Not Applicable

d. *Performance and Evaluation Report (PER) (OMB No. 2506-0085)* – This report is due from each State CDBG grantee within 90 days after the close of its program year. The PER instructions are in Notice CPD-11-03 which is available at <https://www.hudexchange.info/resource/2298/notice-cpd-11-03-reporting-requirements-state-per/>. The auditor is expected to test only the financial data in this report (24 CFR sections 91.520 (a) and (d)). States have the option to submit the PER through the electronic Consolidated (eCon) Plan template which is available at [https://www.hudexchange.info/consolidated-plan/econ-planning-suite/.](https://www.hudexchange.info/consolidated-plan/econ-planning-suite/)

**2. Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, (*OMB No. 2529-0043*) – Each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of $200,000 in a program year, must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry (SPEARS) System (24 CFR sections 135.3(a)(1) and 135.90).

Information on the automated system is available at http://portal.hud.gov/hudportal/HUD?src=/program\_offices/fair\_housing\_equal\_opp/section3/section3/spears. SPEARS pre-populates Form HUD 60002 with recipient name and address along with disbursement data for program funding covered by Section 3. Users have the flexibility of selecting the 12-month reporting period, typically to coincide with their respective fiscal cycle.

*Key Line Items* – The following line items contain critical information:

a. Number of new hires that meet the definition of a Section 3 resident

b. Total dollar amount of construction contracts awarded during the reporting period

c. Dollar amount of construction contracts awarded to Section 3 businesses during the reporting period

d. Number of Section 3 businesses receiving the construction contracts

e. Total dollar amount of non-construction contracts awarded during the reporting period

f. Dollar amount of non-construction contracts awarded to Section 3 businesses during the reporting period

g. Number of Section 3 businesses receiving the non-construction contracts

*Quarterly Performance Report (QPR) (OMB No. 2506-0165):* This report is due each quarter from State CDBG-DR grantees after the first full quarter following execution of a grant agreement with HUD. The report is submitted in HUD’s Disaster Recovery Grant Reporting system (DRGR). The instructions for submitting QPRs can be found in the DRGR User Guide. (https:// <https://www.hudexchange.info/onecpd/assets/File/DRGR-User-Manual.pdf> )

The QPR is created using data in the DRGR action plan. Essentially, the QPRs are a tool that allows the grantee, HUD, and Congress to track expenditures and performance for individual activities. Additionally, CDBG-DR grantees are required to post QPRs on the grantee’s website. Therefore, the DRGR action plan must be set-up properly in order for the grantee to be enable to fully report on their activities and accomplishments.

Action plans in DRGR can be modified at almost any time. However, an action plan must be in an approved status before the QPR can be submitted to HUD for review and approval. Additionally, QPRs must be submitted and reviewed within a certain timeframe:

|  |  |  |
| --- | --- | --- |
| **Reporting Period End Date** | **Grantee Submission Deadlines** | **HUD Review Deadlines** |
| 30-March | 30-Apr | 30-May |
| 30-Jun | 30-Jul | 30-Aug |
| 30-Sep | 30-Oct | 30-Nov |
| 30-Dec | 30-Jan | 30-Feb |

**3. Special Reporting** – Not Applicable

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

**Ohio Development Services Agency**

All Community Development Block Grant Program funds are reported to ODSA’s Office of Community Development (OCD). There are two reports the Auditor should consider:

* Form DS2 - Request for Payment and Status of Funds Report *(This form may be tested in conjunction with Part C, Cash Management, of this FACCR)*
* Final Performance Report

Withdrawing Cash

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

The grantee must execute a Draw Request each time funds are required to meet disbursement needs. The grantee must have submitted an Authorized Signature Card for Request for Payment and Status of Funds Report (DS2) and a Grant Distribution Information Card (DS3), prior to requesting grant funds.

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(l) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

Final Performance Report

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

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

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01- Grant Operations and Financial Management Policy and Procedures (E)(2) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

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

*(Source:* [*Ohio Development Services Agency Housing Program Manual*](https://development.ohio.gov/files/cs/HPM-Part1.pdf) *(Non-Participating Jurisdiction Housing Handbook) Section (B) page 24)*

Rounding Grant Funds

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

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

*(Source: ODSA OCD Program Policy Notice OCD 17-01 and 18-01 - Grant Operations and Financial Management Policy and Procedures (A)(2)(h) at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

|  |
| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Note for Direct Awards Only**: For recipients using HHS’ Payment Management System (PMS) to draw Federal funds, the auditor should consider the following steps numbered 1 through 4 as they pertain to the cash reporting portion of the SF-425A, regardless of the source of the data included in the PMS reports. (During FY2016, HHS is completing the transition from pooled payment to use of subaccounts.) Although certain data is supplied by the Federal awarding agency (e.g., award authorization amounts) and certain amounts are provided by HHS’ Payment Management Services, the auditor should ensure that such amounts are in agreement with the recipient’s records and are otherwise accurate.  **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| 1. Review applicable statutes, regulations, and the terms and conditions of the Federal award pertaining to reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency or pass-through entity, in the case of a subrecipient, instructions for completing the reports.  a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).  b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.  2. Select a sample of reports and perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:  a. Comparing current period reports to prior period reports.  b. Comparing anticipated results to the data included in the reports.  c. Comparing information obtained during the audit of the financial statements to the reports.  3. Select a sample of each of the following report types, and test for accuracy and completeness:  a. *Financial reports*  (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.  (2) Review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).  (3) Trace the amounts reported to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.  (4) For any discrepancies noted in SF-425 reports concerning cash status when the advance payment method is used, review subsequent SF-425 reports to ascertain if the discrepancies were appropriately resolved with the applicable payment system.  b. *Performance and special reports*  (1) Review the supporting records and ascertain if all applicable data elements were included in the sampled reports. Trace the reported data to records that accumulate and summarize data.  (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.  c. *For each type of report*  (1) When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.  (2) Test mathematical accuracy of reports and supporting worksheets.  4. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the applicable payment system, or pass-through entity in the case of a subrecipient. |

### Audit Implications Summary

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

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

### OMB Compliance Requirements

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

***US Department of Housing and Urban Development Program Specific Information:***

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

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

***US Department of Transportation Crosscutting Information:***

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

Non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations

(29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6; the A-102 Common Rule (§ .36(i)(5)); OMB Circular A-110 (2 CFR part 215, Appendix A, Contract Provisions); **2 CFR part 176, subpart C**; and 2 CFR section 200.326).

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

*(Source: 2019 OMB Compliance Supplement Department of Transportation Crosscutting Procedures)*

### Additional Program Specific Information

None noted.

### Audit Objectives and Control Testing

Obtain an understanding of internal control, assess risk, and test internal control as required by [2 CFR section 200.514(c)](2CFR200.514(c).pdf) and using the guidance provided in the following:

* [Part 6](OMB_Compliance_Supplement_Part_6.pdf) of the OMB Compliance Supplement, Internal Control
* 2013 COSO (<http://www.coso.org/IC.htm>)
* GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2019 OMB Compliance Supplement Part 3.2)*

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

*(Source: 2019 OMB Compliance Supplement Department of Transportation Crosscutting Procedures)*

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

### Suggested Audit Procedures

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| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| Select a sample of construction contracts and subcontracts greater than $2,000 that are covered by the Wage Rate Requirements and perform the following procedures:  a. Verify that the required prevailing wage rate clauses were included in the contract or subcontract.  b. For each week in which work was performed under the contract or subcontract, verify that the contractor or subcontractor submitted the required certified payrolls.  (**Note:** Auditors are not expected to determine whether prevailing wage rates were paid.) |

### Audit Implications Summary

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

## N. SPECIAL TESTS AND PROVISIONS – Environmental Oversight

### OMB Compliance Requirements

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

The State must assume the environmental oversight responsibilities and functions of HUD under Section 104(g), Housing and Community Development (HCD) Act, (42 USC 5304(g)). The State must (a) require each of its general local governments (subrecipients) to perform as a responsible Federal official in carrying out all HUD environmental review requirements under 24 CFR part 58, National Environmental Policy Act (NEPA), and other applicable authorities; (b) review and approve each subrecipient’s Request for Release of Funds (RROF) in accordance with the procedures provided under 24 CFR part 58 subpart H; (c) ensure that each subrecipient observes the statutory requirement that funds cannot be expended or obligated before the State approves its RROF and environmental certification, except as otherwise provided specifically in regulation or authorized by law; and (d) monitor and provide technical assistance to its subrecipients to ensure compliance with the environmental authorities (24 CFR part 58) and the adequacy of environmental reviews.

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

Additional, CDBG-DR Environmental Review information and federal regulations can be found at (<https://www.hudexchange.info/programs/environmental-review/disaster-recovery-and-environment/#general-resources>).

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

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

*(Source: AOS CFAE)*

### Audit Objectives and Control Testing

1. Obtain an understanding of internal control, assess risk, and test internal control as required by [2 CFR section 200.514(c)](2CFR200.514(c).pdf) and using the guidance provided in the following:

* [Part 6](OMB_Compliance_Supplement_Part_6.pdf) of the OMB Compliance Supplement, Internal Control
* 2013 COSO (<http://www.coso.org/IC.htm>)
* GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2019 OMB Compliance Supplement Part 3.2)*

1. Determine whether the State carries out its environmental oversight responsibilities and functions.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

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

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. Examine the State’s program for monitoring and enforcing compliance with the environmental authorities.  b. Examine the State’s approval of the RROF and environmental certification, and note dates.  c. Verify that the State obtained certifications and that the State’s records provide evidence that the funds were obligated and expended after the State’s approval of the RROF and environmental certification. |

### Audit Implications Summary

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

## N. SPECIAL TESTS AND PROVISIONS – Environmental Reviews

### OMB Compliance Requirements

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

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

*(Source: 201\* OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

Projects must have an environmental review unless they meet criteria specified in the regulations that would exclude them from RROF and environmental certification requirements. States that directly implement NSP activities are considered recipients and must assume environmental review responsibilities for the State’s activities and those of any non-governmental entity that participates in the project. States that directly implement activities must submit the Request for Release of Funds (RROF) and the certifications to HUD for approval (24 CFR sections 58.4(b)(1), 58.34, and 58.35).

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

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

*(Source: AOS CFAE)*

**Environmental Review Procedures**

This policy replaces Policy Notice 08-04, and outlines environmental review procedures for responsible entities implementing multi-year activities or providing supplemental assistance to activities for which the Office of Community Development (OCD) has previously issued a Release of Funds Respecting Environmental Grant Conditions (ROF). Effective July 1, 2017, OCD grantees may no longer make a determination of “Continued Relevance” to fulfill the environmental responsibilities outlined at 24 CFR Part 58 (Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities). Instead, for the purposes of environmental review, OCD grantees will classify activities as Exempt, Categorical Exclusions, or Environmental Assessments, according to the parameters described at §58.34, §58.35, and §58.36.

Background

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

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

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

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

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

*(Source: ODSA OCD Program Policy Notice OCD 17-03 - Environmental Review Procedures for Multi-Year Activities and Supplemental Assistance at* [*Program Policy Notices*](https://development.force.com/OCDKnowledgeArticles/s/topic/0TOt0000000TQhQGAW/program-policy-notices?tabset-31992=2)*)*

### Audit Objectives and Control Testing

1. Obtain an understanding of internal control, assess risk, and test internal control as required by [2 CFR section 200.514(c)](2CFR200.514(c).pdf) and using the guidance provided in the following:

* [Part 6](OMB_Compliance_Supplement_Part_6.pdf) of the OMB Compliance Supplement, Internal Control
* 2013 COSO (<http://www.coso.org/IC.htm>)
* GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2019 OMB Compliance Supplement Part 3.2)*

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

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

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

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. Verify that the State obtained environmental review certifications from the subrecipient and that the State records provide evidence that the environmental reviews were made.  b. For any project where an environmental review was not performed, ascertain that a written determination was made that the review was not required.  c. Ascertain that documentation exists that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.  d. Verify that States obtained HUD approvals of RROFs and environmental certifications for State activities.  e. Verify that, for State activities, funds were obligated and expended after HUD approval of State RROFs and environmental certifications. Some CDBG-DR grantees may use the environmental review for projects that are also funded with FEMA. See Federal Register Notices. |

### Audit Implications Summary

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

## N. SPECIAL TESTS AND PROVISIONS – Citizen Participation

### OMB Compliance Requirements

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

CDBG – Prior to the submission to HUD for its annual grant, the grantee must certify to HUD that it has met the citizen participation requirements in 24 CFR sections 91.115 and 570.486, as applicable.

HERA provided for supersession of the citizen participation requirement to expedite the distribution of NSP grant funds and to provide for expedited citizen participation. The provisions of 24 CFR sections 570.485 and 570.486 with respect to following the citizen participation plan are waived to allow the jurisdiction to provide no fewer than 15 calendar days for citizen comment, rather than 30 days, for its initial NSP submission (Section II.B.4. of NSP Notice, 73 FR 58334 and NSP3 Notice, 75 FR 64328)*.*

CDBG DR grantees must post the Action Plan for public comment for a minimum or seven or up to 30 days, based on the specific requirements for the CDBG-DR appropriation identified in the applicable Federal Register Notice. CDBG-DR grantees are required to ensure that public comments are included in the Action Plan submitted to HUD.

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

**Ohio Development Services Agency Office of Community Development**

**Citizen Participation Guidance**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• Public Hearing #1 must be held prior to the development of the application. Adequate notice of this public hearing must be made 10 days in advance following the guidance provided in OCD Policy Notice 07-01.

• Public Hearing #2 must be held after the application is developed but prior to its submission to the Office of Community Development. Adequate notice of this public hearing must include a summary of the proposed activities to be undertaken and be published 10 days in advance following the guidance provided in OCD Policy Notice 07-01.

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

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

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

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

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

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

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

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

• National and state program objectives;

• Estimated amount of funds available to the community;

• Range of eligible activities;

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

• A summary of other program requirements;

• Date of Public Hearing #2;

• Date Application is due to the Office of Community Development in OCEAN; and

• Citizen views and comments.

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

Ten (10) or more working days after the first public hearing, Public Hearing #2 is required in order to give citizens an opportunity to review and comment on the community’s proposed Application prior to its submission.

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

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

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

• Citizen views and comments.

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

*(Source: ODSA OCD* [*Citizen Particparion Guidance*](https://development.ohio.gov/files/cs/Citizen%20Participation%20Guidance%20June%202016.pdf) *at* [*https://development.ohio.gov/cs/cs\_ocp.htm*](https://development.ohio.gov/cs/cs_ocp.htm)*)*

### Audit Objectives and Control Testing

1. Obtain an understanding of internal control, assess risk, and test internal control as required by [2 CFR section 200.514(c)](2CFR200.514(c).pdf) and using the guidance provided in the following:

* [Part 6](OMB_Compliance_Supplement_Part_6.pdf) of the OMB Compliance Supplement, Internal Control
* 2013 COSO (<http://www.coso.org/IC.htm>)
* GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2019 OMB Compliance Supplement Part 3.2)*

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

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

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

### Suggested Audit Procedures

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| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. Verify that the grantee has a citizen participation plan.  b. Review the plan to verify that it provides for public hearings, publication, public comment, access to records, and consideration of comments.  c. Examine the grantee’s records for evidence that the elements of the citizen’s participation plan were followed as the grantee certified.  d. Green Building Standards. CDBG-DR grantees with appropriations after 2012 are required to ensure that Green Building Standards are applied to all replacement housing and new construction housing activities. Green Building Retrofit Checklist should be used for all housing rehabilitation activities.  e. HUD Compliance Reviews. Auditors may consult HUD’s Community Planning and Development Monitoring Handbook for the specific compliance review exhibits that HUD uses to determine compliance. The CDBG=DR monitoring exhibits can be found at \*<https://www.hud.gov/program_offices/administration/hudclips/handbooks/cpd/6509.2> ). |

### Audit Implications Summary

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

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

### OMB Compliance Requirements

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

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

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

### Additional Program Specific Information

No additional program specific information was noted.

### Audit Objectives and Control Testing

1. Obtain an understanding of internal control, assess risk, and test internal control as required by [2 CFR section 200.514(c)](2CFR200.514(c).pdf) and using the guidance provided in the following:

* [Part 6](OMB_Compliance_Supplement_Part_6.pdf) of the OMB Compliance Supplement, Internal Control
* 2013 COSO (<http://www.coso.org/IC.htm>)
* GAO’s 2014 Green Book (<http://www.gao.gov/assets/670/665712.pdf>).

Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

*(Source: 2019 OMB Compliance Supplement Part 3.2)*

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

*(Source: 2019 OMB Compliance Supplement, Part 4, Department of Housing and Urban Development CFDA 14.228 Community Development Block Grants/State’s Program and Non-Entitlement in Hawaii)*

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

### Suggested Audit Procedures

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| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. Review rehabilitation standards established for NSP work.  b. Verify through a review of documentation that the rehabilitation work is inspected upon completion to ensure that it is carried out in accordance with applicable rehabilitation standards. |

### Audit Implications Summary

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

## Program Testing Conclusion

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

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

Per paragraph 13.39 of the **2019** **AICPA Audit Guide, *Government Auditing Standards and Single Audits*,** **[Permalink to here](https://checkpoint.riag.com/app/view/docPermaLink?DocID=iAICPAIGS:767.2440&docTid=T0AICPAIGS:767.2440-1&feature=ttoc&lastCpReqId=97899&tlltype=AICPAIGS:767.2668)**, the **following are required to be reported** as audit findings in the federal awards section of the schedule of findings and questioned costs **(**[**see 2CFR200 section 516**](2CFR200.516.pdf)**):**

* Significant deficiencies and material weaknesses in internal control over major programs
* Material noncompliance with the federal statues, regulations, or the terms and conditions of federal awards related to major programs
* Known questioned costs that are greater than $25,000 for a type of compliance requirement for a major program. The auditor also must report (in the schedule of findings and questioned costs) known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program.
* Known questioned costs that are greater than $25,000 for programs that are not audited as major.
* The circumstances concerning why the opinion in the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards (for example, a scope limitation that is not otherwise reported as a finding).
* Known or likely fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for federal awards.
* Significant instances of abuse relating to major programs
* Instances in which the results of audit follow-up procedures disclosed that the summary schedule\* of prior audit findings prepared by the auditee in accordance with [Section 200.511(b)](2CFR200.511(b).pdf) of the Uniform Guidance, materially misrepresents the status of any prior audit finding.

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

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

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

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| **Cross-reference to internal control matters (significant deficiencies or material weaknesses), if any, documented in the FACCR:** |
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| **Cross-reference to questioned costs and matter of noncompliance, if any, documented in this FACCR:** |
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**Per paragraph 13.49 of the 2019 AICPA Audit Guide, *Government Auditing Standards and Single Audits*,** the schedule of findings and questioned costs should include all audit findings required to be reported under the Uniform Guidance. A separate written communication (such as a communication sometimes referred to as a management letter) may not be used to communicate such matters to the auditee in lieu of reporting them as audit findings in accordance with the Uniform Guidance. See the discussion beginning at paragraph 13.33 for information on Uniform Guidance requirements for the schedule of findings and questioned costs. If there are other matters that do not meet the Uniform Guidance requirements for reporting but, in the auditor's judgment, warrant the attention those charged with governance, they should be communicated in writing or orally. If such a communication is provided in writing to the auditee, there is no requirement for that communication to be referenced in the Uniform Guidance compliance report. Per table 13-2 **a matter must meet the following in order to be communicated in the management letter:**

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

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