**Federal Awards Compliance Audit Guidance and Testing**

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

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Capitalization Grants for Clean Water State Revolving Funds |
| **CFDA#:** | 66.458 |

**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.**

**The 2018 OMB Compliance Supplement was issued as a skinny version, only significant updates and changes were included in the 2018 version. For areas where there were no updates or changes in the 2018 OMB Compliance Supplement, the 2017 OMB Compliance Supplement should be used. The AICPA has published a tool that shows the specific changes made by section and program. When using this boilerplate to write a FACCR you may be required to use both the 2017 OMB Compliance Supplement and the 2018 OMB Compliance Supplement. Refer to the** [**AICPA tool**](AICPA%202018%20OMB%20Compliance%20Supplement%20Changes%20Tool.pdf) **to aid in determining what parts have been updated.**

NOTE:

* This program is clustered with CFDA 66.482, Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Capitalization Grants for Clean Water State Revolving Funds. However, Ohio was not listed as state receiving these funds and therefore, 66.482 will not be included in this FACCR. If you have an entity that received funds under 66.482, please contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for instructions.
* The projects selected in the “Single Audit SEFA 2018 Completeness Guide” located at <http://www.ohioauditor.gov/references/practiceaids.html> are the minimum reporting requirement for these entities. If a selected entity chooses to report all their federal projects, we would not need to have any adjustments or citations.
* These programs are federal grants, not loan programs. See SEFA Guidance in the “Single Audit SEFA 2018 Completeness Guide” located at <http://www.ohioauditor.gov/references/practiceaids.html> for additional reporting information.

**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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**UG vs Non- UG**

This FACCR was written using UG requirements, however:

* + You must document, in your w/p’s, your determination that this major program fell under Uniform Guidance requirements.
  + This FACCR was written as a UG FACCR. If there are material non-UG transactions to test, auditors should obtain the A-133 FACCR available at <http://www.ohioauditor.gov/references/practiceaids/faccrs.html>or contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) with questions.
  + Per the 2018 AICPA Government Auditing Standards & Single Audit Guide, paragraph 11.49 through 11.50 states that a separate sample for non-UG award transactions and post-UG award transactions within a major program would not typically be needed. However, if testing both UG and non-UG populations, auditors will need to determine if control testing is sufficient for both UG and non-UG transactions and if additional control testing is necessary for UG specific requirements.

# 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** | Yes |  | N |  |  |  |  |  | *5%* |
| **D** |  | ***RESERVED*** |  |  |  |  |  |  |  |  |  |
| **E** |  | **Eligibility** | No |  |  |  |  |  |  |  |  |
| **F** |  | **Equipment & Real Property Mgmt** | No |  |  |  |  |  |  |  |  |
| **G** |  | **Matching, Level of Effort, Earmark** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **H** |  | **Period of Availability (Performance)** | Yes |  | M |  |  |  |  |  | *5%* |
| **I** |  | **Procurement & Sus. & Debarment** | Yes |  | N |  |  |  |  |  | *5%* |
| **J** |  | **Program Income** | Yes | No – See Note  In Section | M |  |  |  |  |  | *5%* |
| **K** |  | ***RESERVED*** |  |  |  |  |  |  |  |  |  |
| **L** |  | **Reporting** | Yes |  | N |  |  |  |  |  | *5%* |
| **M** |  | **Subrecipient Monitoring** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **N** |  | **Special Tests & Provisions – Environmental Review Requirements** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **N** |  | **Special Tests & Provisions – Binding Commitments** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **N** |  | **Special Tests & Provisions – Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **N** |  | **Special Tests & Provisions – CWSRF as Security for Bonds** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **N** |  | **Special Tests & Provisions – American Iron and Steel** | Yes |  | N |  |  |  |  |  | *5%* |
| **N** |  | **Special Tests & Provisions – Fiscal Sustainability Plan** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |
| **N** |  | **Special Tests & Provisions – Cost Effectiveness Analysis Certification** | Yes | No – See Note  In Section |  |  |  |  |  |  |  |

**(1)** Taken form Part 2, Matrix of Compliance Requirements, of the OMB Compliance Supplement (<https://www.whitehouse.gov/omb/information-for-agencies/circulars> ). When Part 2 of the Compliance Supplement indicates that a type of compliance requirement is not applicable, the remaining assessments for the compliance requirement are not applicable.

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

**(3)** Refer to the 2018 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 2018 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 2018 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

Capitalization grants are awarded to States to create and maintain Clean Water State Revolving Funds (CWSRFs) to (1) enable States to encourage construction of wastewater treatment facilities to meet the enforceable requirements of the Clean Water Act (Act); (2) increase the emphasis on nonpoint source pollution control and protection of estuaries; and (3) establish permanent financing institutions in each State to provide continuing sources of financing to maintain water quality. The CWSRF provides loans and other types of financial assistance (but not grants) to qualified communities and local agencies. The CWSRF is a permanent revolving fund to provide loans and other assistance (40 CFR section 35.3115).

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### II. Program Procedures

The CWSRF program is established in each State by capitalization grants from the Environmental Protection Agency (EPA). Since the enabling legislation was enacted in 1987, capitalization grants have been available to States in most years. EPA implements the CWSRF in a manner that preserves a high degree of flexibility for States in operating their revolving funds in accordance with each State’s unique needs and circumstances.

States are required to provide an amount equal to 20 percent of the capitalization grant as State matching funds in order to receive a grant. Capitalization grant applications must include (1) an Intended Use Plan (IUP), which lists proposed projects eligible for financing from CWSRF loans; (2) an identification of the source of the matching amount; (3) a proposed payment schedule; and (4) certain certifications and demonstrations. States may transfer an amount up to 33 percent of its Drinking Water State Revolving Fund (DWSRF) (CFDA 66.468) capitalization grant to the CWSRF or an equivalent amount from the CWSRF to the DWSRF program.

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### III. Source of Governing Requirements

The CWSRF program is authorized under Title VI of the Clean Water Act (33 USC 1381 et seq.) (Act), Subtitle A: Provisions in Title VI of the Water Resources Reform and Development Act of 2014 (WRRDA) (Pub. L. No. 113-121), amending the Federal Water Pollution Control Act (FWPCA) and which became effective on October ,1, 2014, and the Disaster Relief Appropriations Act, 2013 (Pub. L. No. 113-2). The implementing regulations are found in 40 CFR part 35, subpart K.

Guidance on cross-collateralization is found in the policy statement entitled Transfer and Cross- Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds, published in the October 13, 2000 Federal Register (65 FR 60940). Guidance on fees collected under the CWSRF program is found in the policy statement entitled Fees Charged by States to Recipients of Clean Water State Revolving Fund Assistance, published in the October 20, 2005 Federal Register (70 FR 61039). This guidance supplements the coverage of 40 CFR part 35.

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### IV. Other Information

General information about the program is available on the EPA Clean Water State Revolving Fund home page (<https://www.epa.gov/cwsrf>).

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

# Part II – Pass through Agency and Grant Specific Information

### Program Overview

The Water Pollution Control Loan Fund program provides financial and technical assistance for improvements to surface and groundwater quality, and is administered under [Section 6111.036](http://codes.ohio.gov/orc/6111.036) of the Ohio Revised Code.

Rules that support the implementation of parts of the WPCLF may be found at [Ohio Administrative Code 3745-150](http://codes.ohio.gov/oac/3745-150).

*(Source:* [*OWDA Program Guidelines*](OWDA%20WPCLF%20Program%20Guidelines.pdf)*;* [*EPA Website*](https://www.epa.state.oh.us/)*;* [*Ohio Revised Code: Section 6111.036*](http://codes.ohio.gov/orc/6111.036)*; and OWDA Board Action: Resolution 44-89, Resolution 06-96, Resolution 57-02, Motion May 27, 2010, Motion July 29, 2010, and Motion Oct. 27, 2010; and Motion January 29, 2015, and Rebecca McKinney, OEPA, 2/6/19)*

### Testing Considerations

Although WPCLF staff is available to assist applicants with project administration, the applicant carries the responsibility for managing its project before, during, and after assistance award. It is essential that the applicant be award of its responsibilities, commitments, and obligations.

In general, the applicant is responsible for negotiations of necessary and reasonable costs, effective management of funds and adequate project monitoring.

*(Source:* [*2018 Final WPCLF Program Management Plan*](OEPA_WPCLF_PMP_2018_Final.pdf) *(p.25))*

The WPCLF is a revolving fund designed to operate in perpetuity to provide low interest rate loans and other forms of assistance for water resource protection and improvement projects. In addition, specialized services are provided for small and hardship communities.

Examples of projects that can be financed through the WPCLF are:

* publicly-owned wastewater treatment plant and sanitary sewer system construction projects, combined sewer overflow controls, sewer system rehabilitation and correction of infiltration/inflow;
* publicly-owned septage receiving facilities, brownfields, landfill closure or remediation, septic system improvements, urban storm water runoff, stream corridor restoration, forestry best management practices, development best management practices, agricultural runoff controls, source water/wellhead protection, “green” infrastructure, and other nonpoint source pollution control projects as allowed under the Clean Water Act.

Using the WPCLF to fund water resource improvement projects has many advantages, including:

* Below-market rates provide significant cost savings compared to a market interest rates. For example: a $1,000,000 20‐year loan at the WPCLF September 2017 standard rate of 1.88% compared to a 20‐year loan at the September 2017 market rate of 3.13% results in a savings of approximately $147,937 over the life of the loan.
* Ohio EPA staff has extensive experience providing advice and assistance in identifying sound technical and financial solutions to local governments. The types of assistance include creating facilities planning information, reviewing projects for potential cost saving measures, providing technological, administrative and/or performance information, helping to develop user charge systems, and working with other funding programs.
* The extensive experience and proven procedures of the Ohio Water Development Authority (OWDA) benefit the financial management of the WPCLF program and the development of individual projects.
* The WPCLF program can fund a wide variety of water pollution control projects.
* Although the WPCLF program must follow certain federal requirements, it is a state program. Project procedures and funding requirements are streamlined since the program is administered completely by state personnel.
* The WPCLF, through its discount incentives, procedures, and project assistance, is able to be more than just a funding program. It helps provide applicants greater assurance that their projects will be economically sound, technically appropriate, and environmentally effective.
* The WPCLF can benefit small communities throughout the Appalachian counties of Ohio in partnership with The Appalachian Regional Commission (ARC). The WPCLF administers ARC grants awarded to Ohio communities in conjunction with WPCLF low interest rate loans. This provides small communities with local match money required for the ARC grants, simplifying the delivery of needed grant dollars and allowing rapid processing of invoices for construction costs.

*(Source:* [*2018 Final WPCLF Program Management Plan*](OEPA_WPCLF_PMP_2018_Final.pdf) *(p.2))*

The purpose of these loans is to provide low interest financing and incentives for projects such as: wastewater treatment facilities construction and/or improvements, decentralized wastewater treatment, interceptor sewers, collection systems, combined sewer overflow control, storm sewer separation, and landfill closures.

Eligible construction loan recipients include: LGAs (cities, villages, counties), and sewer districts that have a 1) a place on the WPCLF priority list; 2) fundable status according to the current WPCLF Program Management Plan; 3) permit-to-install obtained from OEPA; 4)and have a local rate legislation enacted to ensure revenues adequate to meet annual loan repayments.

*(Source:* [*OWDA WPCLF Program Guidelines*](OWDA%20WPCLF%20Program%20Guidelines.pdf) *(p.2-3))*

Municipal wastewater treatment improvements and non-point pollution control projects also are eligible for financing under the Ohio Water Pollution Control Loan Fund. This state revolving fund, jointly administered by the OWDA and Ohio EPA, was established in 1989 to replace the Construction Grants Program. Construction loans from WPCLF are available at two interest rates: a standard rate which is usually below market rates, and reduced rates for communities that qualify based on economic need and size. Planning loans are available at a short-term interest rate. Applications for WPCLF loans must be made to the Ohio EPA Division of Environmental and Financial Assistance.

Some communities undertaking wastewater treatment construction or improvement projects also may qualify for the low interest programs available in this area.

To apply for a loan the Borrower must:

1. Fill out and submit nomination form with supporting documents.

For Loan Agreement approval the Borrower must:

1. Receive OEPA approval of facilities plans, detail plans, Permit-to-Install, and other program materials per ORC 6111.036.

2. Receive bids and tentatively approve contract awards.

3. Pass legislation authorizing signing the Loan Agreement.

4. Complete any necessary assessment, tap-in and/or rate legislation.

5. Prepare a Projection schedule of revenues, debt service obligations, and operation and maintenance costs, over the contract term of years repayments are to be made to OWDA.

6. Have OWDA staff review of all paperwork

7. Receive OWDA Board approval of loan

For Disbursement of loan funds the Borrower must:

1. Have paid Loan Application fee

2. Submit Fund Payment Request form with

2a. Supporting technical services invoices,

2b. Contractor’s Estimate Form and supporting contractors’ documentation.

*(Source:* [*OWDA WPCLF Program Guidelines*](OWDA%20WPCLF%20Program%20Guidelines.pdf)*;* [*Ohio Revised Code: Section 6111.036*](http://codes.ohio.gov/orc/6111.036)*; and OWDA Board Action: Resolution 44-89, Resolution 06-96, Resolution 57-02, Motion May 27, 2010, Motion July 29, 2010, Motion Oct. 27, 2010, and Rebecca McKinney, OEPA , 2/6/19)*

Note: WPCLF Water Quality program funds are state funds. WPCLF Capitalization grant funds are federal funds (66.458). Entity loans can be funded by both federal and state funds – refer to the [disbursement protocol](https://www.owda.org/disbursement-forms) and [OWDA’s website](https://www.owda.org/) for funding source to determine what type of funds the entity received.

*(Source: Rebecca McKinney, OEPA, 2/6/19)*

Additional Guidance:

*OEPA and OWDA Guidance:*

OWDA Home Page containing links to program guidelines: [http:/www.owda.org/](http://www.owda.org/)

OWDA “Your Loan” – a Listing by Borrower of all Loan Activity for each project: <http://loans.owda.org/>

Ohio EPA Office of Financial Assistance website: <https://epa.ohio.gov/defa/ofa>

### 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 2018 Completeness Guide” located at <http://www.ohioauditor.gov/references/practiceaids.html>.

*(Source: CFAE)*

# PART III – APPLICABLE COMPLIANCE REQUIREMENTS

## A. ACTIVITIES ALLOWED OR UNALLOWED

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

### OMB Compliance Requirements

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

For example, could a government use an imaginary Homeland Security grant to pay OP&F pension costs for its police force? To determine this, the client (and we) would look to the grant agreement to see if police activities (security of persons and property function cost classification) met the program objectives. Then, the auditor would look to Subpart E (provisions for selected items of cost [§ 200.420-200.475](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 Federal statutes, regulations, and the terms and conditions of the Federal award 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: 2017 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. Financial Assistance

a. The CWSRF may provide financial assistance (1) to municipalities, inter- municipal, interstate, or State agencies for the construction of publicly owned treatment works, as defined in section 212 of the Act that are on the State’s project priority list; (2) for implementing nonpoint source management programs under section 319 of the Act; (3) for developing and implementing estuary management plans under section 320 of the Act (33 USC 1383(c)); (4) for the construction, repair or replacement of decentralized wastewater treatment systems that treat municipal wastewater or domestic sewage; (5) for measures to manage, reduce, treat, or recapture stormwater or subsurface drainage water; (6) to any municipality, or intermunicipal, interstate, or State agency for measures to reduce the demand for publicly owned treatment works capacity through water conservation, efficiency, or reuse; (7) for the development and implementation of watershed projects meeting the criteria set forth in Section 122 of the Act; (8) to any municipality, or intermunicipal, interstate, or State agency for measures to reduce the energy consumption needs for publicly owned treatment works; (9) for reusing or recycling wastewater, stormwater, or subsurface drainage water; (10) for measures to increase the security of publicly owned treatment works; and (11) to any qualified nonprofit entity, as determined by the EPA Administrator, to provide assistance to owners and operators of small and medium publicly owned treatment works to

(1) plan, develop, and obtain financing for eligible projects under this subsection, including planning, design, and associated preconstruction activities; and, and

(2) assist such treatment works in achieving compliance with the Act.

b. The allowable types of financial assistance under CFDA 66.458 (33 USC 1383(d)) are:

(1) Making loans (not grants) for eligible projects;

(2) Buying or refinancing of debt obligations of municipal, intermunicipal, and interstate agencies incurred after March 7, 1985;

(3) Guaranteeing or purchasing insurance for local debt obligations;

(4) Using as a source of revenue or security for CWSRF debt obligations (providing that the net proceeds of the sale of such bonds are deposited in the CWSRF); and

(5) Guaranteeing loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies.

c. Funds awarded under CFDA 66.482 may be used only for projects to reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic change or a natural disaster (Pub. L. No. 113-2, Division A, Title X, 127 Stat. 31).

2. CWSRF funds may be used by States for the reasonable costs of administering and managing the CWSRF (33 USC 1383(d)(7)). See III.G.3.a, “Matching, Level of Effort, Earmarking – Earmarking.”

3. CWSRF funds may be used by States to provide additional subsidization in the form of principal forgiveness, grants, and negative interest loans to municipal, intermunicipal, interstate or State agencies receiving CWSRF assistance. Additional subsidy may be provided to (a) implement a process, material, technique or technology to address water or energy-efficiency goals; (b) mitigate stormwater runoff; (3) encourage sustainable project planning, design and construction; or (4) a municipality that meets the State’s affordability criteria or seeks additional subsidization to benefit individual ratepayers in the residential user rate class who would otherwise experience significant financial hardship (33 USC 1383(i)(1). See III.G.3.b, “Matching, Level of Effort, Earmarking – Earmarking.”

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### Additional Program Specific Information

**Ohio EPA and OWDA Requirements:**

Ohio EPA and OWDA jointly administer this program and oversee program disbursements.

**Allowable Costs**

Ohio EPA may provide WPCLF funds for the purposes eligible under the Ohio Revised Code 6111.036, the Clean Water Act, and the current Program Management Plan (PMP).

*(Source:* [*2018 Final WPCLF Program Management Plan*](OEPA_WPCLF_PMP_2018_Final.pdf) *(p.25))*

Sewage projects include sewage treatment facilities, interceptor sewers, sewage collection systems and storm sewer separation projects. The OWDA market rate program for these projects is the Fresh Water Fund. The Fresh Water Group contains loans for planning/design and/or construction (supplements also available) of wastewater and/or storm water infrastructure. The purpose of these loans is to provide financing for wastewater and storm water projects such as: development or acquisition of potable water sources, construction/expansion of water and wastewater collection systems, well-head protection planning studies, or storm water management facilities. Allowable costs also include engineering and design fees, construction costs, legal and inspection fees.

*(Source:* [*OWDA Program Guidelines*](OWDA%20WPCLF%20Program%20Guidelines.pdf)*;* [*Ohio Revised Code: Section 6111.036*](http://codes.ohio.gov/orc/6111.036)*; and OWDA Board Action: Resolution 44-89, Resolution 06-96, Resolution 57-02, Motion May 27, 2010, Motion July 29, 2010, and Motion Oct. 27, 2010)*

**Unallowable Costs**

The following is a summary of some of the more common unallowable costs for WPCLF funding:

1. Equipment, materials, supplies, and spare parts in excess of that shown to be reasonable, necessary, and allocable to the treatment works.

2. Street restoration beyond that necessary for installing sewers and directly related to constructing treatment works.

3. Ordinary governmental or personal operating expenses of the applicant or individual requesting the WPCLF assistance (e.g., salaries of elected officials, travel, costs of establishing departments or units of government, fines, and penalties levied by regulatory agencies, etc.).

4. Personal injury compensation or damages.

5. Permit costs and application fees that are not allocable to the project. Permit-to-Install (PTI) fees for a project may be WPCLF eligible; NPDES permit fees are not WPCLF eligible

6. Costs of nonpoint source management (NPS) projects not contributing to the prevention or abatement of impacts to water quality.

7. Refinancing construction debt for projects with long-term, permanent financing or any type of permanent long term financing and any project that has completed construction.

8. Any fees, charges, etc. paid to a WRRSP sponsor by a WRRSP implementer for a WRRSP project.

9. Construction of lateral sewer connections outside of the public right-of-way. However, the lining of privately-owned lateral sewer connections when necessary to eliminate infiltration/inflow into the publically-owned treatment system is an eligible cost.

10. Private entities are not eligible to receive WPCLF assistance for septage receiving and treatment facilities. Private entities that wish to receive WPCLF assistance for these type of facilities are encouraged to seek a public entity with which to partner as their applicant.—Appendix D

*(Source:* [*2018 Final WPCLF Program Management Plan*](OEPA_WPCLF_PMP_2018_Final.pdf)*, Appendix C)*

**Loan Disbursement Procedures**

OEPA and OWDA jointly administer the WPCLF program disbursements. As further described below, LGA’s must submit supporting documentation for project expenditures to OWDA and record the memo receipts/disbursements in their accounting system.

These procedures are applicable for all loans approved by the Ohio Water Development Authority.

Complete payment instructions should have been included as part of the loan application. In the event these were incomplete, an LGA Payment Instruction Form must be submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement. A copy of this form specific to your project will need to be requested from OWDA.

For contractors receiving payments directly from OWDA, a Contractor Payment Instruction Form must be completed by the contractor and submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement to the contractor.

Each reimbursement request should be sent to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215, and must include the following items:

* A completed on-line fund payment request form with original signature from the LGA summarizing the invoices and amounts requested. This form is completed on-line, printed, signed and submitted with the items listed below.
* A copy of each invoice listed on the on-line fund payment request form.
* A completed OWDA’s Contractor’s Estimate form and a detailed schedule of values for each contractor invoice listed on the on-line fund payment request form. The Contractor Estimate form must include original signatures by the LGA, engineer, and the contractor. All estimates must be numbered and must be submitted in numerical order. A contractor’s estimate form is not required for non-contractor line item requests.

All reimbursement requests are processed in the order they are received. Once a week, OWDA will submit completed vouchers to banks for processing. OWDA’s banks will then process either a check or transfer the funds via federal wire.

*(Source:* [*OWDA Disbursement Procedures*](http://www.owda.org/disbursement-forms) *included under “Loan Info” on the* [*OWDA website*](https://www.owda.org/default.aspx)*)*

**Change Order Procedures**

* The [**WPCLF Change Order form**](http://www.owda.org/owda-doc/loan%20info/ChangeOrderWPCLF.pdf) must be used.  Please contact your DEFA project engineer for specific DEFA change order approval requirements.
* DEFA will transmit approved change orders to OWDA for further processing.
* OWDA will return fully executed change orders to the LGA.
* Change orders must be submitted in numerical sequence and cannot appear on the Contractor’s Estimate until after approval by DEFA.

*(Source:* [*OWDA Disbursement Procedures*](http://www.owda.org/disbursement-forms) *included under “Loan Info” on the* [*OWDA website*](https://www.owda.org/default.aspx)*)*

**Release of Retainer Funds**

Recipients must submit a Release of Retainer Form for disbursement of contractor retainage money to the LGA.

*(Source:* [*OWDA Disbursement Procedures*](http://www.owda.org/disbursement-forms) *included under “Loan Info” on the* [*OWDA website*](https://www.owda.org/default.aspx)*)*

[Terms of the Water Pollution Control Linked Deposit Loan Program](OWDA_Notes_WPCLF_link%202011Mar.pdf)

This program provides for a bank loan at a reduced interest rate for the implementation of agricultural or forestry best management practices, on-site wastewater disposal systems or other non-point source pollution control.

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

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

|  |
| --- |
| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **This FACCR was written for grants required to be tested under the UG, however if you have material non-UG transactions, you will need to contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov)**.**  **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 Federal statutes, regulations, and the terms and conditions of the Federal award pertaining to the program.  2. When allowability is determined based upon summary level data, perform procedures to verify that:  a. Activities were allowable.  b. Individual transactions were properly classified and accumulated into the activity total.  3. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.  4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities. |

### Audit Implications Summary

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

## B. ALLOWABLE COSTS/COST PRINCIPLES

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

### Applicability of Cost Principles

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

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

*(Source: AOS CFAE)*

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

* 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: 2017 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: 2017 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

There are no Program Specific requirements for this compliance requirement.

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

**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

No additional program specific information was noted.

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

### Indirect Cost Rate

Except for those non-Federal entities described in [2 CFR part 200, Appendix VII, paragraph D.1.b](2CFR200_Appendix_VII_Para_D(1)(b).pdf), if a non-Federal entity has never received a negotiated indirect cost rate, it may elect to charge a de minimis rate of 10 percent of modified total direct costs (MTDC). 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: 2017 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)

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

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

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

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

**2 CFR PART 200**

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

**Introduction**

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

***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: 2017 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: 2017 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):** |
| **This FACCR was written for grants required to be tested under the UG, however if you have material non-UG transactions, you will need to contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov)**.**  **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: 2017 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):** |
| **This FACCR was written for grants required to be tested under the UG, however if you have material non-UG transactions, you will need to contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov)**.**  **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: 2017 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):** |
| **This FACCR was written for grants required to be tested under the UG, however if you have material non-UG transactions, you will need to contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov)**.**  **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 2017 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: 2017 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 \_\_\_\_\_\_\_\_\_\_** |

## C. CASH MANAGEMENT

### OMB Compliance Requirements

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

***Grants and Cooperative Agreements***

***All Non-Federal Entities***

**Written Procedure Requirements:**

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

***States***

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

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

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

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

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

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

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

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

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

***Pass-through Entities***

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

**Source of Governing Requirements**

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

*(Source: 2017 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

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

**Availability of Other Information**

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

*(Source: 2017 OMB Compliance Supplement 3.2)*

**Note:** The link above <http://www.dpm.psc.gov/> no longer works, please use <https://pms.psc.gov/>.

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

*(Source: AOS CFAE)*

**Part 4 OMB Program Specific Requirements**

The State may draw cash from EPA through the Automated Clearinghouse (ACH) or the Automated Standard Application for Payments (ASAP) system for:

1. *Loans* – when the CWSRF receives a request from a loan recipient, based on incurred costs, including pre-building and building costs.
2. *Refinance or Purchase of Municipal Debt* – generally, when at a rate no greater than equal amounts over the maximum number of quarters that payments can be made, and up to the amount committed to the refinancing or purchase of the local debt.
3. *Purchase of Insurance* – when insurance premiums are due.
4. *Guarantees and Security for Bonds* – immediately, in the event of imminent default in debt service payments on the guaranteed/secured debt; otherwise, up to an amount dedicated for the guarantee or security based on incurred construction costs.
5. *Administrative Expenses* – cash can be drawn based on a schedule that coincides with the rate at which administrative expenses will be incurred.

(40 CFR section 35.3160)

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### Additional Program Specific Information

**Loan Disbursement Procedures**

OEPA and OWDA jointly administer the WPCLF program disbursements. As further described below, LGA’s must submit supporting documentation for project expenditures to OWDA and record the memo receipts/disbursements in their accounting system.

These procedures are applicable for all loans approved by the Ohio Water Development Authority.

Complete payment instructions should have been included as part of the loan application. In the event these were incomplete, an LGA Payment Instruction Form must be submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement. A copy of this form specific to your project will need to be requested from OWDA.

For contractors receiving payments directly from OWDA, a Contractor Payment Instruction Form must be completed by the contractor and submitted to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215 prior to the first disbursement to the contractor.

Each reimbursement request should be sent to Daniel P. Gill, P.E., Engineer, Ohio Water Development Authority, 480 South High Street, Columbus, Ohio 43215, and must include the following items:

* A completed on-line fund payment request form with original signature from the LGA summarizing the invoices and amounts requested. This form is completed on-line, printed, signed and submitted with the items listed below.
* A copy of each invoice listed on the on-line fund payment request form.
* A completed OWDA’s Contractor’s Estimate form and a detailed schedule of values for each contractor invoice listed on the on-line fund payment request form. The Contractor Estimate form must include original signatures by the LGA, engineer, and the contractor. All estimates must be numbered and must be submitted in numerical order. A contractor’s estimate form is not required for non-contractor line item requests.

All reimbursement requests are processed in the order they are received. Once a week, OWDA will submit completed vouchers to banks for processing. OWDA’s banks will then process either a check or transfer the funds via federal wire.

*(Source:* [*OWDA Disbursement Procedures*](http://www.owda.org/disbursement-forms) *included under “Loan Info” on the* [*OWDA website*](https://www.owda.org/default.aspx)*)*

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

### Audit Objectives and Control Testing

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

**Additional Control Test Objectives for Written Procedures**

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

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

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

### Suggested Audit Procedures – Compliance (Substantive Tests)

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

### Audit Implications Summary

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

## E. ELIGIBILITY

### OMB Compliance Requirements – Not Applicable

This compliance requirement is not applicable per the2017 OMB Compliance Supplement, Part 2.

## F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

### OMB Compliance Requirements – Not Applicable

This compliance requirement is not applicable per the2017 OMB Compliance Supplement, Part 2.

## G. MATCHING, LEVEL OF EFFORT, EARMARKING

### OMB Compliance Requirements – Not Applicable

* Level of Effort requirements are not applicable to the program, per 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds.
* Matching and Earmarking requirements normally apply to the State. However, it is possible that a local match or earmarking requirements also apply to a local government’s funded project. Auditors should review the terms and conditions of their grant/loan awards to determine whether there are any local matching or earmarking requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## 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: 2017 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. “Grant payments” from a capitalization grant shall begin in the quarter in which the grant is awarded, and end no later than eight quarters after the grant is awarded, not to exceed 12 quarters from the date of allotment of grant funds to the States (40 CFR section 35.3155(c)).

1. Funds made available for disaster relief activities under CFDA 66.482 are available until expended (Pub. L. No. 113-2, Division A, Title X, 127 Stat. 31).

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### Additional Program Specific Information

There were no additional agency specific requirements noted.

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

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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

### Audit Implications Summary

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

## I. PROCUREMENT AND SUSPENSION AND DEBARMENT

### OMB Compliance Requirements – Procurement

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

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

*Non-Federal Entities Other than States*

Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at [2 CFR sections 200.318 through 200.326](2CFR200.317_thru_200.326.pdf). They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200. A non-Federal entity must:

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

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

3. Use the micro-purchase and small purchase methods only for procurements that meet the applicable criteria under 2 CFR sections 200.320(a) and (b). Under the micro-purchase method, the aggregate dollar amount does not exceed $3,500 ($2,000 in the case of acquisition for construction subject to the Wage Rate Requirements (Davis-Bacon Act)). Small purchase procedures are used for purchases that exceed the micro-purchase amount but do not exceed the simplified acquisition threshold. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable (2 CFR section 200.320(a)). If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources (2 CFR section 200.320(b)). Note exceptions described in subsequent sections for the provisions under the 2017 and 2018 National Defense Authorization Act.

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

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

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

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

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

**Source of Governing Requirements – Procurement**

The requirements that apply to procurement under grants and cooperative agreements are contained in [2 CFR sections 200.317 through 200.326](2CFR200.317_thru_200.326.pdf), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements that apply to procurement under cost-reimbursement contracts under the FAR are contained in 48 CFR parts [03](48CFR_Part_3.pdf), [15](48CFR_Part_15.pdf), [44](48CFR_Part_44.pdf) and the clauses at [48 CFR section 52.244-2](48CFR52.244-2.pdf), [52.244-5](48CFR52.244-5.pdf), [52.203-13](48CFR52.203-13.pdf), [52.203-16](48CFR52.203-16.pdf), and [52.215-12](48CFR52.215-12.pdf); agency FAR Supplements; and the terms and conditions of the contract.

*(Source: 2018 OMB Compliance Supplement 3.2)*

**National Defense Authorization Act (NDAA) of 2017and 2018**

The following information is provided regarding timing and impact of the NDAA of 2017 and 2018. Additional guidance to the auditor is provided in Appendix VII -A – “Other Audit Advisories – Hurricane and NDAA Addendum” of the 2018 Supplement.

*NDAA of 2017*

The NDAA of 2017, Section 217 (Pub. L. No. 114-328, 130 Stat. 6 (2051)) and 41 USC 1902(a)(2) contained the following provisions.

Raise the micro-purchase threshold to $10,000 for procurements under grants and cooperative agreements to institutions of higher education, or related or affiliated nonprofit entities, nonprofit research organizations or independent research institutes...

Allow a threshold higher than $10,000 as determined appropriate by the head of the relevant executive agency.

The provisions of this Act are specific to, institutions of higher education, or related or affiliated nonprofit entities, nonprofit research organizations or independent research institutes. As of the date of this 2018 Supplement, OMB has not issued guidance to clarify the applicability date which would allow the specified entities to raise their micro-purchase threshold up to $10,000. Once the applicability date is determined, the non-Federal entity must document this decision in its internal procurement policies. Institutions of higher education, or related or affiliated nonprofit entities, nonprofit research organizations or independent research institutes, which had established micro-purchase thresholds up to the $10,000 prior to the enactment of the NDAA 2017, are allowed to continue the use of the same threshold as documented in their internal procurement policies.

Note that the exception for the $10,000 micro-purchase threshold is not available to ALL auditees; however when implemented by an eligible auditee, the exception would apply to procurements purchased under ALL federal grants.

Institutions of higher education, or related or affiliated nonprofit entities, nonprofit research organizations or independent research institutes may request micro-purchase threshold higher than $10,000, but it requires a formal approval from an appropriate executive agency. Once approved, the non-Federal entity must document this decision in its internal procurement policies.

*NDAA of 2018*

The NDAA of 2018, Sections 805 (41 USC 134) and 806 (41 USC. 1902 (a) (1)), increased the simplified acquisition threshold to $250,000 and the micro-purchase threshold to $10,000, respectively for ALL auditees for ALL Federal grants. These changes effectively redefine the level for the simplified acquisition threshold (section 200.88 of the Uniform Guidance) and the micro-purchase threshold (section 200.67 of the Uniform Guidance). These changes will become effective when they are formally codified in the Federal Acquisition Regulations at 48 CFR Subpart 2.1 (Definitions). Early implementation is not permissible.

Note exception for institutions of higher education, or related or affiliated nonprofit entities, nonprofit research organizations or independent research institutes provided under 2017 NDAA (and described in previous section).

Once codified, the higher thresholds will be available to all non-Federal entities except States. The non-Federal entity must document this decision in its internal procurement policies.

*(Source: 2018 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

DOT has made additions and edits to part 317. EPA has made additions and edits to part 318. HHS has made additions and edits to parts 212, 318, 320 and 325. The most recent compilation of agency additions and exceptions is provided on the COFAR website here <https://cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. However, this list is only updated through 12/2014.

### OMB Compliance Requirements – Suspension and Debarment

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

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

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

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

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

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

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

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

**Availability of Other Information**

2 CFR part 200.110(a) Effective/Applicability Date, was amended of May 17, 2017, to allow non-Federal entities to continue to comply with the procurement standards in OMB Circular A-110 or the A-102 common rule, as applicable, through December 25, 2017 extending the grace period from 2 years to 3 years. Implementation of the procurement standards in [2 CFR sections 200.317 through 200.326](2CFR200.317_thru_200.326.pdf) is now required for auditee fiscal years beginning on or after December 26, 2017. . For example, for a non-Federal entity with a June 30th year end, implementation is required for its fiscal years beginning July 1, 2018.

If a non-Federal entity chooses to use the previous procurement standards for the additional three fiscal years before adopting the procurement standards in 2 CFR part 200, the non-Federal entity must document this decision in its internal procurement policies.

Auditors will review procurement policies and procedures based on the documented standard. Once the grace period ends, all non-Federal entities will be required to comply fully with the uniform guidance.

*(Source: 2018 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

There are no Program Specific requirements for this compliance requirement.

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

**Written Procedure Requirements:**

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

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

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

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

*(Source: CFAE/eCFR)*

### Additional Program Specific Information

There were no additional agency specific requirements noted.

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

### Audit Objectives and Control Testing

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

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

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

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

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **This FACCR was written for grants required to be tested under the UG, however if you have material non-UG transactions, you will need to contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov)**.**  **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| *(Procedures 2 – 5 apply to non-Federal entities other than States.)*  2. Obtain the entity’s procurement policies and verify that the policies comply with the compliance requirements highlighted above.  3. Verify that the entity has written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts ([2 CFR section 200.318(c)](2CFR200.318(c).pdf) and [48 CFR sections 52.203-13](48CFR52.203-13.pdf) and [52.203-16](48CFR52.203-16.pdf)).  4. Ascertain if the entity has a policy to use statutorily or administratively imposed in‑State or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference ([2 CFR section 200.319(b)](2CFR200.319(b).pdf)).  5. Select a sample of procurements and perform the following procedures:  a. Examine contract files and verify that they document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price ([2 CFR section 200.318(i)](2CFR200.318(i).pdf) and [48 CFR part 44](48CFR_Part_44.pdf) and section [52.244-2](48CFR52.244-2.pdf)).  b. For grants and cooperative agreements, verify that the procurement method used was appropriate based on the dollar amount and conditions specified in [2 CFR section 200.320](2CFR200.320.pdf).Current micro-purchase and simplified acquisition thresholds can be found in the FAR (48 CFR subpart 2.1, “Definitions”) (<https://www.acquisition.gov/sites/default/files/current/far/html/Subpart%202_1.html>).  c. Verify that procurements provide full and open competition ([2 CFR section 200.319](2CFR200.319.pdf) and [48 CFR section 52.244-5](48CFR52.244-5.pdf)).  d. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified ([2 CFR sections 200.319](2CFR200.319.pdf) and [200.320(f)](2CFR200.320(f).pdf) and [48 CFR section 52.244-5](48CFR52.244-5.pdf)).  e. Ascertain if cost or price analysis was performed in connection with all procurement actions exceeding the simplified acquisition threshold, including contract modifications, and that this analysis supported the procurement action [(2 CFR section 200.323](2CFR200.323.pdf) and [48 CFR section 15.404-3](48CFR15.404-3.pdf)).  **Note**: A cost or price analysis is required for each procurement action, including each contract modification, when the total amount of the contract and related modifications is greater than the simplified acquisition threshold.)  f. Verify consent to subcontract was obtained when required by the terms and conditions of a cost reimbursement contract under the FAR ([48 CFR section 52.244-2](48CFR52.244-2.pdf)).  **Note**: If the non-Federal entity has an approved purchasing system, consent to subcontract may not be required unless specifically identified by contract terms or conditions. The auditor should verify that the approval of the purchasing system is effective for the audit period being reviewed.  g. Refer to Appendix VII-A for guidance on reporting audit test results for the National Defense Authorization Acts of 2017 and 2018.  *(Procedures 6 and 7 apply to all non-Federal entities)*  6. Review the non-Federal entity’s procedures for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded ([2 CFR sections 200.212](2CFR200.212.pdf) and [200.318(h)](2CFR200.318(h).pdf); [2 CFR section 180.300](2CFR180.300.pdf); [48 CFR section 52.209-6](48CFR52.209-6.pdf)).  7. Select a sample of procurements and subawards and test whether the non-Federal entity followed its procedures before entering into a covered transaction. |

### Audit Implications Summary

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

## J. PROGRAM INCOME

### OMB Compliance Requirements – Not Applicable

Program income requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any program income requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## 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 OMB’s home page <http://www.whitehouse.gov/omb/grants_forms>).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: 2017 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* – Applicable

**2. Performance Reporting** – Not Applicable

**3. Special Reporting** – Not Applicable

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### Additional Program Specific Information

There were no additional agency specific requirements noted.

Auditors should refer to the terms and conditions of the OEPA grant award. Reporting requirements are generally not expected to apply to most LGA’s. OEPA prepares a report annually for the Federal awarding agency which includes the projects awarded and disbursements made among other information. There is usually no LGA involvement in the reporting process. However, local governments must record these payments in their accounting system in a separate fund, sub-fund, revenue line-item, etc. as on-behalf funding in accordance with AOS Bulletin 2000-008.

*(Source: AOS CFAE)*

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

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Note 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.  **This FACCR was written for grants required to be tested under the UG, however if you have material non-UG transactions, you will need to contact CFAE via the** [**FACCR Inbox**](mailto:FACCR@ohioauditor.gov)**.**  **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 – Not applicable*  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 \_\_\_\_\_\_\_\_\_\_** |

## M. SUBRECIPIENT MONITORING

### OMB Compliance Requirements – Not Applicable

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

## N. SPECIAL TESTS AND PROVISIONS – Environmental Review Requirements

### OMB Compliance Requirements – Not Applicable

Environmental Review Requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any applicable requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## N. SPECIAL TESTS AND PROVISIONS – Binding Commitments

### OMB Compliance Requirements – Not Applicable

Binding Commitments section requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any applicable requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## N. SPECIAL TESTS AND PROVISIONS – Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds

### OMB Compliance Requirements – Not Applicable

The Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds section requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any applicable requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## N. SPECIAL TESTS AND PROVISIONS – CWSRF as Security for Bonds

### OMB Compliance Requirements – Not Applicable

CWSRF as Security for Bonds requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any applicable requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## N. SPECIAL TESTS AND PROVISIONS – American Iron and Steel (AIS)

### 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: 2017 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

Pub. L. No. 113-76, Consolidated Appropriations Act, 2014, Section 436, requires that, unless exempted by the Administrator of the Environmental Protection Agency, all iron and steel products used for a CWSRF project for the construction, alteration, maintenance or repair of treatment work are produced in the United States. This requirement does not apply with respect to a project prior to January 17, 2014 if a State agency approved the engineering plans and specifications for the project, in that agency’s capacity to approve such plans and specifications prior to a project requesting bids. Additional information is available at <http://water.epa.gov/grants_funding/aisrequirement.cfm>.

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

### Additional Program Specific Information

There were no additional agency specific requirements noted.

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

### Audit Objectives and Control Testing

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: 2017 OMB Compliance Supplement Part 3.2)*

1. Determine whether treatment works funded by the CWSRF used only iron and steel produced in the United States, unless the EPA Administrator has issued a waiver of this requirement.

*(Source: 2017 OMB Compliance Supplement, Part 4, 66.458 Capitalization Grants for Clean Water State Revolving Funds)*

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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.** |
| *Subrecipients*  a. Select a sample of treatment works disbursement invoices.  b. Review invoices and supporting documentation from suppliers, vendors, and contractors to identify the source of iron and steel materials used in project construction.  c. If any iron or steel material was not manufactured in the United States, determine whether a waiver has been issued by the EPA Administrator. |

### Audit Implications 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 – Fiscal Sustainability Plans

### OMB Compliance Requirements – Not Applicable

Fiscal Sustainability Plans section requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any applicable requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## N. SPECIAL TESTS AND PROVISIONS – Cost Effectiveness Analysis Certification

### OMB Compliance Requirements – Not Applicable

Cost Effectiveness Analysis Certification requirements apply only to the State. However, auditors should review the terms and conditions of their grant/loan awards to determine whether there are any applicable requirements. If so, auditors should contact CFAE via the [FACCR Inbox](mailto:FACCR@ohioauditor.gov) for this section, document those requirements, and test the procedures accordingly.

## 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 **2018** **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 2018 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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