**Federal Awards Compliance Audit Guidance and Testing**

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

|  |  |
| --- | --- |
| **FEDERAL AWARD NAME:** | Supporting Effective Instruction State Grant  (Formally Improving Teacher Quality State Grants) |
| **CFDA#:** | 84.367 |

**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

**NOTE:**

* **See Part I Section IV Other Information for information if the entity has the Small Rural Schools Achievement (SRSA) Alternative Uses of Funds Program (CFDA #84.358A)**
* **Information was obtained from the pass through agency, the Ohio Department of Education (Yolanda Mitchell-Garnes, Jeremy Marks, & David Ehle)**

# Important Information (please read)

**NOTE: This is the final version of the FACCR based upon the revised compliance supplement.**

**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.**

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

# AGENCY ADOPTION OF THE UG AND EXAMPLE CITATIONS

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

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

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

*(Source: AOS CFAE)*

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# Introduction: Materiality by Compliance Requirement Matrix

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

**£: This is applicable per the OMB Compliance Supplement, however, we do not expect it to be applicable to local entities.**

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

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

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

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

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

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

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

*Note:*

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

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

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

*(Source: AOS CFAE)*

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

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

# Part I – OMB Compliance Supplement Information

***US Department of Education Crosscutting Information:***

**Transition from the ESEA, as amended by the No Child Left Behind Act (NCLB), to the ESEA, as amended by the Every Student Succeeds Act (ESSA)**

The ESEA was amended December 10, 2015 by the ESSA (Pub. L. No. 114-95).

**Waivers and Expanded Flexibility**

Under Section 8401 of the ESEA, as amended, State educational agencies (SEAs), Indian tribes, local educational agencies (LEAs) through their SEA, and schools through their LEA and SEA may request waivers from ED of many of the statutory and regulatory requirements of programs authorized in the ESEA. In addition, some States may have been granted authority to grant waivers of Federal requirements under the Education Flexibility Partnership Act of 1999.

**Cross-Cutting Requirements**

In recent years, the Office of Inspector General in ED has investigated a number of significant criminal cases related to the risk of misuse of Federal funds and the lack of accountability of Federal funds in public charter schools. Auditors should be aware that, unless an applicable program statute provides otherwise, public charter schools and charter school LEAs are subject to the requirements in this cross-cutting section to the same extent as other public schools and LEAs. Auditors also should note that, depending upon State law, a public charter school may be its own LEA or a school that is part of a traditional LEA.

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

### I. Program Objectives

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

The objective of the Supporting Effective Instruction State Grant program (formerly Improving Teacher Quality State Grants program) in Title II, Part A of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the Every Student Succeeds Act (ESSA) (Pub. L. No. 114-95), is to provide funds to State educational agencies (SEAs), and local educational agencies (LEAs), to: (1) increase student achievement consistent with the challenging State academic standards, (2) improve the quality and effectiveness of teachers, principals, and other school leaders, (3) increase the number of teachers, principals, and other school leaders who are effective in improving student academic achievement in schools, and (4) provide low-income and minority students greater access to effective teachers, principals, and other school leaders.

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

***US Department of Education Crosscutting Information:***

Program objectives for programs covered by this cross-cutting section are set forth in the individual program sections of this Supplement.

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

### II. Program Procedures

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

**A. Overview**

Funds are obtained by a State on the basis of the Department of Education’s (ED) approval of either (1) an individual State plan as provided in Section 2101 of the ESEA (20 USC 6611) or (2) a consolidated application that includes the program, in accordance with Section 8302 of the ESEA (20 USC 7842).

**B. Equitable Service**

After timely and meaningful consultation with appropriate private school officials, SEAs and LEAs must provide services to teachers and other educational personnel in private schools on an equitable basis that address their needs under the program and are equitable to the level of services provided to teachers and other educational personnel in the SEA and LEA (see generally ESEA section 8501). For more information about equitable services for private school staff and when their participation is equitable, see *Non-Regulatory Guidance: Fiscal Changes and Equitable Services Requirements Under the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Every Student Succeeds Act (ESSA)* available at <https://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf> : see also Section G of *Non- Regulatory Guidance: Improving Teacher Quality State Grants ESEA Title II, Part A,* which is available at <http://www2.ed.gov/programs/teacherqual/guidance.pdf>.

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

***US Department of Education Crosscutting Information:***

**A. Overview**

1. *ESEA Programs*

The ESEA requires an SEA to either, develop and submit separate, program specific individual State plans to ED for approval as provided in individual program requirements outlined in the ESEA or submit, in accordance with Section 8302 of the ESEA, a consolidated plan to ED for approval. Each State submitted a consolidated state plan. SEAs with approved consolidated State plans may require LEAs to submit consolidated plans or allow an LEA to submit individual program plans.

**B. Subprograms/Program Elements**

Unique Features of ESEA Programs That May Affect the Conduct of the Audit Subprograms/Program Elements.

The following unique features may affect the conduct of an audit:

1. *Consolidation of Administrative Funds*

SEAs and LEAs (with SEA approval) may consolidate Federal funds received for administration under many ESEA programs, thus eliminating the need to account for these funds on a program- by-program basis. The amount from each applicable program set aside for State consolidation may not be more than the percentage, if any, authorized for State administration under that program.

1. *Schoolwide Programs*

Eligible schools are able to use their Title I, Part A funds, in combination with other Federal, State, and local funds, in order to upgrade the entire educational program of the school and to raise academic achievement for all students. Except for some of the specific requirements of the Title I, Part A program, Federal funds that a school consolidates in a schoolwide program are not subject to most of the statutory or regulatory requirements of the programs providing the funds as long as the schoolwide program meets the intent and purpose of those programs. The Title I, Part A requirements that apply to schoolwide programs are identified in the Title I, Part A program-specific section. If a school does not consolidate Federal funds with State and local funds in its schoolwide program, the school has flexibility with respect to its use of Title I, Part A funds, consistent with Section 1114 of ESEA (20 USC 6314), but it must comply with all statutory and regulatory requirements of the other Federal funds it uses in its schoolwide program.

1. *Transferability*

SEAs and LEAs (with some limitations) may transfer up to 100% of their allotment from one or more applicable programs (Title II, Part A and Title IV, Part A for SEAs and LEAs; and 21st CCLC for SEAs only) to one or more of those programs or to other applicable programs: Title I, Part A; Title I, Part C; Title I, Part D; Title III, Part A; and Title V, Part B. Transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred.

1. *Small Rural Schools Achievement Alternative Use of Funds*

Eligible LEAs may, after notifying the SEA, spend all or part of the formula funds they receive under two applicable programs (Title II, Part A and Title IV, Part A) for local activities authorized under one or more of five applicable programs (Title I, Part A; Title II, Part A; Title III; and Title IV, Parts A and B).Availability of Additional Program Information

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

### III. Source of Governing Requirements

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

This program is authorized by Title II, Part A, of the ESEA, as amended by the ESSA () (20 USC 6611-6614). The program purpose and definitions in ESEA Title II, , Sections 2101 and 2102 (20 USC 6601 and 6602) also apply to this program.

While there are no program regulations, general ESEA requirements in 34 CFR parts 76, 77 and 299 apply.

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

### IV. Other Information

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

**Availability of Other Program Information**

1. Building Systems of Support for Excellent Teaching and Leading – Non-Regulatory Guidance (September 27, 2016) (<https://www2.ed.gov/policy/elsec/leg/essa/essatitleiipartaguidance.pdf>

2. Improving Teacher Quality State Grants – Non-Regulatory Guidance (October 5, 2006) (<https://www2.ed.gov/programs/teacherqual/guidance.pdf> )

3. Non-Regulatory Guidance: Fiscal Changes and Equitable Services Requirements Under the Elementary and Secondary Education Act of 1965 (ESEA), as Amended by the Every Student Succeeds Act (ESSA) (November 21, 2016) <https://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf>

**Other Information**

Funds under the Small, Rural School Achievement (SRSA) Program (CFDA 84.358A) may be used for activities allowed under other programs, including this program Title II, Part A. Expenditures for allowable activities under Title II, Part A from funds awarded for the SRSA Funds Program should be included in the audit universe and total expenditures of CFDA 84.358A (i.e., from the program from which they originated) for purposes of (1) determining Type A programs, and (2) completing the Schedule of Expenditures of Federal Awards (SEFA).

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

***US Department of Education Crosscutting Information:***

**Availability of Other Program Information**

The ESEA, as reauthorized by the ESSA, is available with a hypertext index at <http://legcounsel.house.gov/Comps/Elementary%20And%20Secondary%20Education%20Act%20Of%201965.pdf> .

An ED *Federal Register* notice, dated July 2, 2004 (69 FR 40360-40365), indicating which Federal programs may be consolidated in a schoolwide program, is available at <http://www.gpo.gov/fdsys/pkg/FR-2004-07-02/pdf/04-15121.pdf> .

A number of documents contain guidance applicable to the cross-cutting requirements in this section. With the exception of the first two documents, which were issued after enactment of the ESSA, the documents listed are applicable to the extent they are not inconsistent with any changes made by ESSA. They include:

1. ESSA Fiscal Changes & Equitable Services (which includes guidance on Transferability Authority) (November 21, 2016) (<https://www2.ed.gov/policy/elsec/leg/essa/essaguidance160477.pdf> )
2. ESSA Schoolwide Guidance (September 29, 2016) (<https://www2.ed.gov/policy/elsec/leg/essa/essaswpguidance9192016.pdf> )
3. Guidance on the Rural Education Achievement Program (REAP) (June 2003) (<http://www.ed.gov/policy/elsec/guid/reap03guidance.doc> )
4. State Educational Agency Procedures for Adjusting Basic, Concentration, Targeted, and Education Finance Incentive Grant Allocations Determined by the U.S. Department of Education (May 23, 2003) (<http://www.ed.gov/programs/titleiparta/seaguidanceforadjustingallocations.doc>)
5. How Does a State or Local Educational Agency Allocate Funds to Charter Schools that are Opening for the First Time or Significantly Expanding Their Enrollment? (December 2000) (<http://www.ed.gov/policy/elsec/guid/cschools/cguidedec2000.doc> )
6. Title I Services to Eligible Private School Children (October 17, 2003) (<http://www.ed.gov/programs/titleiparta/psguidance.doc> )
7. Title IX, Part E Uniform Provisions Subpart 1—Private Schools: Equitable Services to Eligible Private School Students, Teachers, and Other Educational Personnel (March 2009) (<http://www.ed.gov/policy/elsec/guid/equitableserguidance.doc> )
8. Serving Preschool Children Through Title I, Part A of the Elementary and Secondary Education Act of 1965, as Amended (April 16, 2012) (<http://www2.ed.gov/policy/elsec/guid/preschoolguidance2012.pdf> )
9. Non-Regulatory Guidance: Early Learning in the Every Student Succeeds Act (January 2017) (<https://www2.ed.gov/policy/elsec/leg/essa/essaelguidance11717.pdf> )
10. Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008) (<http://www.ed.gov/programs/titleiparta/fiscalguid.doc> )
11. Letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success (September 7, 2012) (<http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html?exp=3> )

**Other Information**

1. *Consolidation of Administrative Funds (SEAs and LEAs)*

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); CSP (84.282); 21st CCLC (84.287); Title III, Part A (84.365); Title II, Part A (84.367); and Title IV, Part A (84.424).*

State and local administrative funds that are consolidated (as described in III.A.1, “Activities Allowed or Unallowed – Consolidation of Administrative Funds (SEAs and LEAs”)) should be included in the audit universe and the total expenditures of the programs from which they originated for purposes of (1) determining Type A programs, and (2) completing the Schedule of Expenditures of Federal Awards (SEFA). A footnote showing, by program, amounts of administrative funds consolidated is encouraged.

1. *Schoolwide Programs* (LEAs)

*ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); 21st CCLC (84.287); Title III, Part A (84.365); Title II, Part A (84.367); and Title IV, Part A (84.424).*

*This section also applies to IDEA (84.027 and 84.173) and CTE (84.048).*

Since schoolwide programs are not separate Federal programs, as defined in 2 CFR section 200.42, expenditures of Federal funds consolidated in schoolwide programs should be included in the audit universe and the total expenditures of the programs from which they originated for purposes of (1) determining Type A programs and (2) completing the SEFA. A footnote showing, by program, amounts consolidated in schoolwide programs is encouraged.

1. *Transferability* (SEAs and LEAs)

*ESEA programs in this Supplement to which this section applies are: Title IV, Part A (84.424); 21st CCLC (84.287) (SEAs only); Title II, Part A (84.367); and Title IV, Part A (84.424).*

Expenditures of funds transferred from one program to another (as described in III.A.3,“Activities Allowed or Unallowed – Transferability (SEAs and LEAs)”) should be included in the audit universe and total expenditures of the receiving program for purposes of (1) determining Type A programs, and (2) completing the SEFA. A footnote showing amounts transferred between programs is encouraged.

1. Prima Facie Case Requirement for Audit Findings

Section 452(a)(2) of the General Education Provisions Act (20 USC 1234a(a)(2)) requires that ED officials establish a *prima facie* case when they seek recoveries of unallowable costs charged to ED programs. When the preliminary ED decision to seek recovery is based on an audit under 2 CFR part 200, subpart F, upon request, auditors will need to provide ED program officials audit documentation. For this purpose, audit documentation (part of which is the auditor’s working papers) includes information the auditor is required to report and document that is not already included in the reporting package.

The requirement to establish a *prima facie* case for the recovery of funds applies to all programs administered by ED, with the exception of Impact Aid (CFDA 84.041) and programs under the Higher Education Act, i.e., the Family Federal Education Loan Program (CFDA 84.032) and the other ED programs covered in the Student Financial Assistance Cluster in Part 5 of the Supplement.

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

# Part II – Pass through Agency and Grant Specific Information

### Program Overview

**State of Ohio**

Application Access

The Ohio Department of Education (ODE) administers a number of federal programs under which subawards are made to Local Educational Agencies (LEAs). ODE uses a Funding Application (FA), known as the Comprehensive Continuous Improvement Plan (CCIP), for several of these programs. The CA is an online form completed by the LEA and constitutes the LEA’s application for various federal programs (certain federal programs administered by ODE are not awarded through the consolidated application).

[Each LEA’s application is available on ODE’s website under the Comprehensive Continuous Improvement Planning section (CCIP)](https://ccip.ode.state.oh.us/default.aspx?ccipSessionKey=636323529333343128).

Also, see [Additional Grants Management Guidance and Forms](http://education.ohio.gov/Topics/Finance-and-Funding/Grants/Grants-Management-Online-Forms) and ODE [Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US).

*(Source: Ohio Department of Education Office of Federal and State Grants Management)*

### Testing Considerations

**Consolidation of Administrative Funds and Coordination Services Projects**

The Ohio Department of Education has not implemented consolidation of administrative funds or the coordination services projects for its ESEA programs. Consolidation is not prohibited by ODE however; the CCIP is not setup for the consolidation of administrative funds and services.

*(Source: Ohio Department of Education Office of Federal Programs)*

For assistance with transfers, please contact the Office of Federal Programs at 614-466-4161 and ask to speak with an educational specialist if there are questions.

*(Source: Ohio Department of Education Office of Federal Programs)*

### Reporting

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

See additional SEFA Guidance in the “Single Audit SEFA 2019 Completeness Guide”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 laws, regulations, and the provisions of the Federal award contracts or grant agreements pertaining to the program. For programs listed in this Supplement, the specific requirements of the governing statutes and regulations are included in Part 4, “Agency Program Requirements” or Part 5, “Clusters of Programs,” as applicable. This type of compliance requirement specifies the activities that can or cannot be funded under a specific program.

**Source of Governing Requirements**

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

ED in 2 CFR 3474.5 may allow exceptions for classes of Federal awards or non-federal entities subject to the requirements of 2 CFR Part 200, however, those will only be permitted in unusual circumstances and will only be publishes on the OMB website at [www.whitehouse.gov/omb/](http://www.whitehouse.gov/omb/). 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.

**Part 4 OMB Program Specific Requirements**

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

***LEA Use of Funds***

After conducting meaningful consultation, as required by ESEA Section 2102(b)(3), LEAs may use funds for a broad range of activities designed to improve educator effectiveness that are identified in ESEA Section 2103(b). While not an exhaustive list, examples of allowable activities include:

a. Providing “professional development” (as the term is defined in ESEA Section 8101(42) (20 USC 7801(42)) to teachers, instructional leadership teams, principals, or other school leaders that is focused on improving teaching and student learning and achievement;

b. Developing and implementing initiatives to recruit, hire, and retain teachers, principals, and other school leaders;

c. Providing training, technical assistance, and capacity-building in local educational agencies to assist teachers, principals, or other school leaders with selecting and implementing formative assessments, designing classroom- based assessments, and using data from such assessments to improve instruction and student academic achievement carrying out initiatives that provide teacher, paraprofessional, principal, or other school leader advancement and professional growth, and an emphasis on leadership opportunities, multiple career paths, and pay differentiation. LEAs also may use funds to hire teachers to reduce class size (ESEA Sections 2103(b) (20 USC 6613(b))).

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

***US Department of Education Crosscutting Information contains the following topics. Additional guidance on each topic can be found at this*** [***link***](Activities%20Allowed%20and%20Unallowed%20US%20Dept%20Ed%20Crosscutting.pdf)***:***

1. ***Consolidation of Administrative Funds*** (SEAs/LEAs)

2. ***Schoolwide Programs*** (LEAs)

3. ***Transferability*** (SEAs and LEAs)

4. ***Small Rural Schools Achievement (SRSA) Alternative Uses of Funds Program***

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

### Additional Program Specific Information

Program funds may be used for Consolidation of Administrative Funds, Coordinated Services Projects, and Schoolwide Programs under Title I. Also, unneeded Program Funds may be transferred to certain other federal programs. The requirements for these options and related testing guidance are included in Section G and N of this FACCR.

The ODE has additional guidance related to implementation of the UG and written policy requirements. It can be found in the [Grants Management Guidance](http://education.ohio.gov/Topics/Finance-and-Funding/Grants/Grants-Management-Online-Forms) and ODE [Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US).

*(Source: Ohio Department of Education Office of Federal and State Grants Management)*

**Unallowable Activities:**

No Federal funding may be used for the acquisition of real property unless specifically permitted by the authorizing statute or implementing regulations for the program (2 CFR 200.311).

*(Source: Ohio Department of Education Office of Federal and State* [*Grants Management Assurances*](ODE%20Grant%20Management%20Assurances.pdf) *#14)*

Ohio Revised Code 3313.24 states, in part: The board of education of each local, exempted village or city school district shall fix the compensation of its treasurer which shall be paid from the general fund of the district.

In spite of any additional duties in managing Federal or State funds, Federal and state law prohibits treasurers from receiving a supplemental contract for managing Federal or State funds.

The Department considers all chief financial officers of educational entities, including but not limited to, non-profit corporations, community schools, colleges and universities to be similarly situated to treasurers of school districts.

*(Source:* [*ODE Treasurer Supplemental Contracts*](ODE_Treasurer_Supplemental_Contracts.pdf)*)*

**Transferability**

Transfers between federal program funds that are covered by ESEA flexibility for federal purposes are allowable. Federal law takes precedence over State Laws and no Ohio Revised Code citations should be issued.

*(Source: CFAE)*

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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

### Audit Implications Summary

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

## B. ALLOWABLE COSTS/COST PRINCIPLES

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

### Applicability of Cost Principles

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

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

*(Source: AOS CFAE)*

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

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

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

**Source of Governing Requirements**

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

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

ED in 2 CFR 3474.5 may allow exceptions for classes of Federal awards or non-federal entities subject to the requirements of 2 CFR Part 200, however, those will only be permitted in unusual circumstances and will only be publishes on the OMB website at [www.whitehouse.gov/omb/](http://www.whitehouse.gov/omb/). 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.

**Basic Guidelines**

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

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

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

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

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

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

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

7. Be adequately documented.

**Selected Items of Cost**

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

***US Department of Education Crosscutting Information contains the following topics. Additional guidance on each topic can be found at this*** [***link***](Allowed%20Costs%20Cost%20Principles%20US%20Dept%20Ed%20Crosscutting.pdf)***:***

1. ***Alternative Fiscal and Administrative Requirements*** (SEAs/LEAs)

2. ***Documentation of Employee Time and Effort (Consolidated Administrative Funds and Schoolwide Programs)***

3. ***Indirect Costs*** (All grantees/all subgrantees)

4. ***Unallowable Direct Costs to Programs***

5. ***Unallowable Costs to Programs (Direct or Indirect)***

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

**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

During FY 15, ODE developed a new CCIP functionality designed to verify that there is a correct approved restricted indirect cost rate during the budget process. When an original budget (Rev 0) or a budget revision is done, a budget error message will appear if the district’s budget for indirect costs under object code 800 without an approved indirect cost rate, or if the budgeted indirect costs exceed the approved rate.

*(Source: ODE CCIP Note #331 -* <https://ccip.ode.state.oh.us/documentlibrary/ViewDocument.aspx?DocumentKey=79206>*)*

**Time and Effort**

Federal regulation requires that all employees who are paid with federal funds, in full or in part, retain specific documentation to demonstrate the amount of time personnel spent on grant activities (Time and Effort records).

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 9*)*

Under [2 CFR 200.430](2CFR200.430.pdf) Time and Effort is principles based and requires written policies establishing Time and Effort documentation and procedures. ODE approved a substitute system of time-and-effort reporting in their memo dated 3/17/2014: [2014-002-ODE-Time-and-Effort-Guidance-03-17-14](2014-002-ODE-Time-and-Effort-Guidance-03-17-14.pdf). This policy was revised in June 2016.

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 25-27*)*

**Transferability**

Transfers between federal program funds that are covered by ESEA flexibility for federal purposes are allowable. Federal law takes precedence over State Laws and no Ohio Revised Code citations should be issued.

*(Source: CFAE)*

### Indirect Cost Rate

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

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

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

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

**2 CFR PART 200**

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

**Introduction**

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

***Cognizant Agency for Indirect Costs***

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

**Additional Control Test Objectives for Written Procedures**

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

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

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

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

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

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

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

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

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

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

### Allowable Costs – State Public Assistance Agency Costs

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

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

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

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

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

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

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

### Cost Principles for Nonprofit Organizations

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

### Audit Implications Summary

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

## G. MATCHING, LEVEL OF EFFORT, EARMARKING

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

### OMB Compliance Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

**Source of Governing Requirements**

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

ED has clarified 2 CFR 200.207 and how exceptions will be granted. 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.

**Part 4 OMB Program Specific Requirements**

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

**1. Matching** (LEAs) – Not Applicable

**2.1 Level of Effort** – *Maintenance of Effort* (SEAs/LEAs)

See ED Cross-Cutting Section.

**2.2 Level of Effort** – *Supplement Not Supplant* (SEAs/LEAs)

See ED Cross-Cutting Section.

**3. Earmarking**

See ED Cross-Cutting Section.

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

***US Department of Education Crosscutting Information contains the following topics. Additional guidance on each topic can be found at this*** [***link***](Matching%20LOE%20Earmarking%20US%20Dept%20Ed%20Crosscutting.pdf)***:***

1. **Matching**

2.1 **Level of Effort** – *Maintenance of Effort* (SEAs/LEAs)

2.2 **Level of Effort** – *Supplement Not Supplant* (SEAs/LEAs)

3. **Earmarking -*Transferability*** (SEAs/LEAs)

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

### Additional Program Specific Information

1. **Maintenance of Effort – Overview of ODE MOE Procedures:**

In Ohio, the SEA prepares the calculation from information provided by the LEA through EMIS. Auditors do not need to request copies of ODE’s maintenance of effort calculations for local school districts. LEA auditors only need to perform limited tests over LEA maintenance of effort reports submitted to ODE.

A Local Educational Agency (LEA) may receive its full allocation of Title I, Part A, 21st Century Community Learning Centers, and Improving Teacher Quality State Grants funds for any fiscal year only if the State educational agency (SEA) determines that the LEA has maintained its fiscal effort in accordance with section 9521 of the Elementary and Secondary Education Act. The full list of grants (both active and inactive) for which this narrative applies includes the following:

* Title I, Part A
* Title I, Part D, Prevention and Intervention Programs for Children and Youth who are Neglected, Delinquent, or At-Risk;
* Title II, Part A, Supporting Effective Instruction
* Title III, Part A; Language Instruction for English Learner and Immigrant Students
* Title IV, Part A, Student Support and Academic Enrichment
* Title IV, Part B, 21st Century Learning Centers; and
* Title V, Part B, Subpart 2, Rural and Low-Income School Program

Section 8521 provides that an LEA may receive funds under Title I, Part A and 21st Century for any fiscal year only if the SEA finds that either the combined fiscal effort per student or the aggregate expenditures of the LEA and the State with respect to the provision of free public education by the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding fiscal year. The new flexibility in ESSA states that for an LEA to fail MOE, they must fall below 90 percent of both the combined fiscal effort per student and aggregate expenditures and have failed MOE in 1 or more of the 5 immediately preceding fiscal years. LEAs that do not meet the 90 percent of both the combined fiscal effort per student and aggregate expenditures but have not failed MOE in the immediately preceding fiscal years, are granted an exemption to the MOE penalty of reduction of allocation.

The Office of Federal Programs (OFP) uses the final EMIS Student Reporting Period S (student FTE data) and EMIS Period H (fiscal) data reported by LEAs for the MOE determination.

The OFP has an application to determine which LEAs did not meet MOE. Included in aggregate expenditures are state and local funds for free public education (administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities). Expenditures for community services, capital outlay, debt service, or supplemental expenses made as a result of a presidentially declared disaster are not included in the determination. In addition, any expenditure made from funds provided by the Federal government is excluded from the determination.

Aggregate expenditures consist of expenditures reported by LEAs under funds 001 and 016 into EMIS aggregated into the expenditure per pupil categories.

**Maintenance of Effort – Specific Procedures:**

The OFP monitors whether LEAs meet MOE requirements. For LEAs that do not meet MOE requirements and have failed MOE in 1 or more of the 5 immediately preceding fiscal years and do not receive a waiver from the U.S. Department of Education, their allocations will be reduced in the next state fiscal year.

After the EMIS Reporting Period closes, the year-end reporting is finalized. The EMIS data is then loaded into a web-based system, which calculates MOE and is available to all LEAs under the Comprehensive Continuous Improvement Plan (CCIP). The system calculates MOE using two methods – per pupil expenditures and aggregate expenditures. The system also analyzes if the LEA has failed MOE within the immediately preceding five years. Additionally, in determining maintenance of effort for the fiscal year immediately following the fiscal year in which an LEA failed to maintain effort, ODE considered an LEA's expenditures in the year the failure occurred to be no less than 90 percent of the 90 percent of the expenditures for the third preceding year. The OFP has an MOE team that reviews all LEA’s missing data elements used in determining Maintenance of Effort that were not reported to ODE.

* + - * + LEA closed in the current fiscal year – calculation is performed, but no action is taken if LEA failed MOE or has missing data elements.
        + LEA uses SW pool – LEAs are asked to enter the percentage of state and local funds share in the fund 598.
        + LEA has erroneous, missing or incorrectly reported FTE – The LEA investigates the reasons for the data issues. The LEA is allowed to appeal the data during an appeal window. If the appeal is approved and new data is submitted showing the LEA has met MOE, no further action is required.
        + LEA has erroneous, missing, or incorrectly reported financial data and did not submit an appeal during the appeal window – LEA is contacted and given an opportunity to use Agreed Upon Procedures to submit the financial data that will be used for the MOE calculations. After the report is submitted, it is reviewed by a designee (school finance area coordinator) and opinion is issued if the report complied with the procedures. When this confirmation is received – it is documented by entering the note in the MOE system and the financial data for a year in question is entered into the MOE system. The new calculation is performed.

Entities that do not report their data into EMIS and do not have a consolidated application are not subject to MOE requirements and not monitored by the Office of Federal Programs. This includes closed LEAs, LEAs that are not recipients of the specific grants monitored, and Community Based Organizations (CBOs). (Note: Entities that can receive 21st Century Community Learning Center funds include Local Educational Agencies (LEA) and CBOs. CBOs are considered non-LEA entities and not subject to Maintenance of Effort requirements.)

After the initial MOE determination is made, the LEAs that did not meet the current MOE requirement are notified by the OFP, as evidenced by an e-mail sent from the MOE system. (E-mails are sent to the LEA’s Superintendent, Treasurer, and CCIP contact). Information provided includes directions on how to request a waiver and where to direct the request.

LEAs have to request a MOE waiver every year that they do not meet the maintenance of effort requirement. The LEAs can submit information and request a waiver directly in the MOE application, and then ODE requests the waiver from USDoE on the LEA’s behalf.

The USDoE provides ODE with an Excel spreadsheet to complete for the LEAs not meeting MOE requirements. For any LEAs requesting a waiver, the OFP provides each LEA’s expenditures, revenue and the LEA explanations in the spreadsheet. Once completed, the spreadsheet is sent to the USDoE.

The Secretary may waive the MOE requirement if it is determined that such a waiver would be equitable due to—

* + - * + Exceptional or uncontrollable circumstances such as a natural disaster; or
        + A precipitous decline in the financial resources of the LEA. [Section 9521(c)]

If additional information is needed USDoE requests the ODE, OFP MOE designee to clarify, verify or obtain additional information from LEA.

After the OFP receives USDoE response regarding the waivers, a copy of the letter to all LEAs that have received an approval of their request is enter in the documents tab of the MOE application. For LEAs that did not receive a waiver or did not request one from USDoE, a note is entered in the appropriate state fiscal year CCIP application History Log to notify them that their allocations are to be reduced (by the method most favorable for LEA) percentage by which LEA did not meet MOE. LEAs allocations are reduced by the percentage most favorable to the LEAs in the appropriate year of the CCIP consolidated application for grants covered by this requirement.

Note: Clarification on MOE calculation and tests:

* + - * + FY 2019 allocations are affected by the MOE calculation performed in FY 2018
        + FY 2018 MOE calculations (performed in FY16) compare FY 2017 to FY 2016
        + Therefore, for FY2019, we will test FY 2017 information when performing the applicable steps.

OFP usually reduces first time allocations in July of the subsequent fiscal year. Once the reallocation process is complete, OFP adjusts the MOE reductions again in March of the following calendar year if needed. Maintenance of Effort (MOE) under the Every Student Succeeds Act (ESSA) included additional flexibility provision in effect for the current period MOE determinations.

*(Sources:*

* + - * + *Office of Federal Programs*
        + *ODE ITO Data Quality and Governance (EMIS)*
        + *AOS State Single Audit, ODE, Project No. 31A36FRAN-FA113,*
        + *Regulatory: ODE EMIS Manual, Sections 1, 2, and 6 (available at:* [*http://education.ohio.gov/Topics/Data/EMIS/EMIS-Documentation/Current-EMIS-Manual*](http://education.ohio.gov/Topics/Data/EMIS/EMIS-Documentation/Current-EMIS-Manual) *).*
        + *Regulatory: ODE CCIP Maintenance of Effort guidance, Revised as of October 28, 2010 (available at:* [*https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=1040*](https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=1040) *) )*
        + *USDOE Non-Regulatory Guidance, Fiscal Changes and Equitable Services Requirements Under ESEA as amended by ESSA November 21, 2016 available at* [*https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=80127*](https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=80127)

See ODE’s Expenditure Amounts by Category (Period H) Manual at <http://education.ohio.gov/getattachment/Topics/Data/EMIS/EMIS-Documentation/FY16-EMIS-Validation-and-Report-Explanation-Docume/Expnd_Amt_by_Cat_Report_Explanation-v2.pdf.aspx>.

1. **Schoolwide Resource Consolidation**

The CCIP application submitted to ODE is different than a school-wide plan. The CCIP is a district level budgeting, planning and approval process. Therefore, LEA’s are aggregating the uses of the various federal programs in the buildings up to the district level. The ODE approves all activities to be conducted by the LEA via the CCIP. In many cases, the budgeted expenditures reflected on the CCIP are at the district-wide-level; however, most of the expenditures should be at the individual buildings.

The challenge of accounting for school-wide programs lies at the district-level accounting. At the building level, there is only one budget and one revenue code needed. At the district level, accounting can be challenging especially if there is a combination of school-wide programs, targeted assistance buildings and non-title I buildings (which also participate in all the other titles and in IDEA). Consolidating of state, federal and local funds is permitted at the school-wide building level as long as the building/LEA can demonstrate that they have met the intent and purpose of all contributing federal programs.

An LEA can budget for many grants tracked as one fund at the building level. However, the LEA would also need to create a pool of funds at the district level that would combine the participating program funds. Reasonably, there would need to be a pool for each building. The LEA can make decisions about how much of each Title program is to be distributed and available for each of the buildings.

The “business rule” was created by ODE as a means of providing the flexibility described in the law under transfer of funds. The rule also allows the same degree of flexibility in a school-wide program while providing a rational basis for determining and reporting carryover and the expenditure of funds. The business rule essentially states that all expenditures are in the exact proportion as the revenue. If a program contributes 41% to the pool, then that program pays 41% of each expenditure from the pool. This is different from taking money for the first quarter from a title I program and then switching to another program in the 2nd quarter. For personnel, this eliminates the requirement for time and effort logs, as this is a single cost objective under OMB Circular A-87 (codified in 2 CFR Part 225) (2 CFR part 225). It meets the requirement of the law which allows LEA’s to not track individual program expenditures but allows them to make a definite and precise determination of how many of each program's funds have been expended. However, any school-wide program would need to have the appropriate documentation that they have conducted the approved activity.

Since each program is approved separately, but expended as one program, there is no change in the FER. There is a difference, however, in how you request funds via the PCR and how you determine the prorated expenditure. The FER already accounts for two or more funds. Based on the funds transferred, the FER already follows the business rule for transferred funds. It unbundles the reported expenditures and calculates the prorated amounts. Therefore, the ability to file an accurate FER can be done by using the same set of business rules used for transferred funds. Expenditures are equally distributed across all contributing programs in the same proportion as the program contribution. All expenses are paid from the pool and the determination of what fund is used is a simple proration calculation. For the FER and PCR, all expenditures should be prorated and then request or report funds based on that prorated amount. Therefore, if title I constitutes 29% and special ed. constitutes 22% of the building revenue, they are automatically 29% and 22% respectively of the expenditures.

1. **Supplement, Not Supplant (SNS)**

**Title I, Part A**: The compliance test for Supplement, Not Supplant for Title I, Part A was amended by the Every Student Succeeds Act (ESSA). Under Section 1118 (b), no local educational agency (LEA) shall be required to identify that an individual cost or service supported under Title I, Part A is supplemental. Furthermore, no LEA shall be required to provide services under Title I, Part A through a particular instructional method or in a particular instructional setting in order to demonstrate compliance with SNS. Instead, to satisfy compliance with Title I, Part A SNS, a LEA shall demonstrate that the methodology used to allocate state and local funds to each school receiving assistance under Title I, Part A ensure that such school receives all the state and local funds it would otherwise receive if it were not receiving assistance under Title I, Part A.

In Ohio, for a LEA to satisfy compliance with Title I, Part A SNS, a LEA must select from one of two methodologies for distributing their non-federal funds among its schools. The ODE has guidance in the CCIP Doc Library to assist districts with selecting a methodology.

*(Source:* [*https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=80333*](https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=80333)*)*

**Other Titles Requiring SNS**: For all other titles that require SNS, the compliance test is the same as before ESSA. In other words, when determining if supplanting has or has not occurred, it will depend on the individual facts and circumstances of each situation. Generally, the compliance test relies on three presumptions of supplanting:

1. Were the federal funds used to provide services required under other federal, state or local laws
2. Were the federal funds used to provide services provided with nonfederal funds in the prior year
3. Were the federal funds used to provide services to eligible students while those same services were provided to non-eligible students with nonfederal funds.

This assessment, in turn, will depend upon a review of the available State agency or district records. There is no precise formula for determining what kinds of records will overcome a presumption of supplanting, or otherwise demonstrate that Federal funds were used in a supplemental manner. However, there are some procedures which can be performed to help determine whether supplanting may have occurred.

In particular, a school district that believes it could not maintain services previously paid with State or local funds had Federal program funds not been available should:

1. Be able to demonstrate a decrease of State and local funds from the prior year and the maintenance or increase in standard operating costs (e.g., salaries, benefits, supplies, etc.) from the prior year;

OR

2. Be able to demonstrate that –

* Any increase in State and local funds is less than increases on the standard operating costs; AND
* State and local funds have not been redirected to a new activity.

AND be able to document that –

* The Board of Education is on record as deciding to eliminate the activity under question unless a new source of funds is made available from non-State and non-local funds (in the absence of State and local funds); AND

The activities to be funded under a particular Federal program are clearly consistent with the purposes of that program.

*For guidance in the CCIP document library which addresses this (*[*https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=1043*](https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=1043) *)*

*(Source: Ohio Department of Education Office of Federal and State Grants Management)*

A presumption of supplanting exists in situations where a treasurer is awarded a supplemental contract to manage Federal and state funds within a school district. Additionally, this same prohibition is present for direct charges to a Federal grant for a portion of the treasurer’s salary. (See Section A “Unallowable Activities” for further information)

*(Source:* [*http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/State-Funding-For-Schools/Career-Technical-Funding/Grants-Management-Guidance/Supplemental-Contracts.pdf.aspx*](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/State-Funding-For-Schools/Career-Technical-Funding/Grants-Management-Guidance/Supplemental-Contracts.pdf.aspx) *)*

Maintenance of Effort is an Elementary and Secondary Education Act (ESEA) fiscal requirement under Section 9521 that requires districts to demonstrate that the level of state and local funding remains relatively constant from year to year, so that districts receive their full ESEA grant allocations. A district’s education expenditures from the general fund must be at least 90 percent of the immediately preceding year’s amounts. It is the state’s responsibility to make an annual determination as to whether a district has maintained fiscal effort.

USDOE guidance on Maintenance of Effort is available [here](https://www2.ed.gov/programs/titleiparta/fiscalguid.pdf).

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 8*)*

Federal funds shall be used to supplement, and not supplant, non-federal funds that would otherwise be used for authorized activities under certain ESEA programs including, but not limited to, Title I-A, Title I-C, Title II-A, Title III, Title VI-B Rural and IDEA-B. These funds shall be used to supplement, and not supplant, any other federal, state or local education funds. In general, federal funds must enhance, add to and supplement services and programs that are offered with state and local funds; federal funds may not be used to replace any services and programs that were offered, or would otherwise be offered, using state and local funds.

USDOE guidance on Supplement, Not Supplant is available [here](https://www2.ed.gov/programs/titleiparta/fiscalguid.pdf).

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 9*)*

### Audit Objectives and Control Testing

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

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

### Suggested Audit Procedures – Compliance

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and- extent (e.g., number of transactions to be selected) of substantive tests of compliance.**  **Additional ODE Pass Through Testing Steps** |
| **1.** **Matching – Not Applicable**  **2. Level of Effort**  **2.1** **Level of Effort** – *Maintenance of Effort*  The Ohio Department of Education performs the maintenance of effort calculation for all LEA’s. Auditors do not need to request copies of maintenance of effort computations for local school districts from ODE. LEA auditors need only test step c below to gain assurances over the amounts reported to ODE. Steps a, b, and d from the 2016 requirements in the OMB Compliance Supplement have been omitted from this FACCR.  Note: Clarification on MOE calculation and tests:   * + - * + FY 2019 allocations are affected by the MOE calculation performed in FY 2018         + FY 2018 MOE calculations (performed in FY16) compare FY 2017 to FY 2016         + Therefore, for FY2019, we will test FY 2017 information when performing the applicable steps.   c. Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared. The procedures below have been designed to assist LEA auditors testing this step at the LEA level. The information below explains how to test certain EMIS report submissions for accuracy and completeness to satisfy this substantive step.  **Maintenance of Effort – LEA Annual ADM Substantive Testing Procedures:**  ODE Office of Federal Programs (OFP) the final EMIS Student Reporting Period S (student FTE data) and EMIS Financial Period H (Expenditure Per Pupil Categories - EPP) data reported by LEAs to perform the MOE computation. This computation is tested during the State’s annual single audit. Auditors should not request this computation from ODE for LEA MOE testing. Instead, LEA auditors need only verify the amounts LEAs submit through EMIS to ODE for the MOE computation are accurate and complete based on the underlying books and records. LEA auditors should perform the steps that follow for Annual ADM and Financial Expenditure Reports.  Beginning with the 2014-2015 school year, the student FTE data used for MOE is the same as the data used by ODE to calculate funding for districts. ODE calculates these FTEs once and uses them for multiple purposes. This calculation is reviewed statewide as part of ODE’s annual audit. Therefore, the critical check at the local level is related to the data reported by each LEA to ODE to ensure that it is accurate. The FTE (ADM) audit procedures in the Ohio Compliance Supplement relating to Ohio Revised Code Sections 3317.01, 3317.02, 3317.03 (e), 3321.04, 3313.48, 3313.981(F) and 3321.04 and OAC 3301-35-06 for traditional schools and ORC Sections 3313.64, 3314.03, and 3314.08 for community schools review this data and can be relied upon for the ADM portion of the MOE review. As explained above, MOE calculations are based upon information spanning several years and we will be relying on 2015 information/testing for 2017.  If you are also testing MOE procedures for the Special Education IDEA Part B cluster, the enrollment ADM portion of the testing is the same, so auditors may test it for one major program and leverage the testing for the other major program. However, the EPP testing is different, so you would have to test such for each major program.  If you are also testing MOE procedures for one of the ESEA programs to which they apply (ie. Improving Teacher Quality, etc.), both the enrollment ADM and EPP procedures are the same, so auditors may test it for one major program and leverage the testing for the other program.  **Annual ADM Substantive Steps:**  **Ohio Compliance Supplement Testing**  Review the 2017 work papers (if accessible) for the Ohio Compliance Supplement testing referenced above along with the Schedule of Findings and Management Letter to determine if any there were any issues reported regarding the code sections noted above regarding FTE.  **Aggregate General Expenditures Substantive Steps**:  EMIS Financial EPP Period H data should include District- and Building- Level financial information for aggregate “general expenditures” using the Expenditure Per Pupil Categories (EPP) described in ODE’s Expenditure Reports Level 2 Report Explanation at <http://education.ohio.gov/Topics/Data/EMIS/EMIS-Documentation/FY16-EMIS-Validation-and-Report-Explanation-Docume>. “General expenditures” include expenditures from the General Fund (001), 016, Poverty Aid (494), and State Fiscal Stabilization Fund (532) and have a value of “Y” in the GEN-FUND FLAG column.. If the LEA operates a Schoolwide Pool, the LEA should also include the percentage of state and local funds included in its Schoolwide Fund (598) as “general expenditures” (i.e., this means the LEA will need to identify the percentage of state and local revenues receipted in Fund 598 in order to prorate the portion of state and local expenditures included in the Schoolwide Fund).  LEA Treasurers extract the required data elements for the appropriate period from the USAS system that automatically is loaded into EMIS or they manually upload a file into the EMIS system to complete the Period H report. All A-site consortiums, including NWOCA, receive a SOC audit. These reports are available in the AOS Internet Audit Search function. LEA auditors can use these reports to obtain assurances over the A-sites internal controls related to data files maintained in EMIS. However, there is still some risk of incomplete or inaccurate reporting at the LEA level (e.g., the LEA did not extract expenditure data for the appropriate time period from the includable EPP funds, functions, and objects, etc.).   * 1. Request the EMIS Coordinator or other District-designated official to access the EMIS Data Collector Archives tab and extract the (EXPD-001) Expenditure csv file from their Level 2 Reports archive file for the FY17-H-Financial Collection Request. The file name will include the IRN of the LEA and the timestamp of when the archive was created, as long as 1-2 years after the data was submitted to and processed by ODE. (Additional guidance for obtaining this report including screenshots can be found at this [link](TitleI.II.III.IV_MOE_StepsWithScreenshots.pdf).)   2. Select a few key totals, subtotals, and line-items and compare these amounts to the expenditures recorded in the underlying USAS accounting system.   Scan EMIS Period H reports to ensure they include only the following types of expenditures, which are allowable under the Expenditure Per Pupil Categories (EPP) (i.e., expenditures related to the direct education of a student).  (a) Allowable maintenance of effort expenditures include state and local funds for free public education (administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities) made in accordance with the Per Pupil Categories (EPP).  (b) LEAs should exclude expenditures for community services, capital outlay, debt service, expenditures made as a fiscal agent, rotary, or supplemental expenses made as a result of a presidentially declared disaster and any expenditure made from funds provided by the Federal government from the EMIS Period H Financial expenditure reports.  Note: ODE confirmed that Debt Expenditures ARE to be EXCLUDED from the EMIS Period H financial expenditure reports.  Note: Auditors may choose to coordinate their scanning procedures with testing of non-Federal non-payroll transactions to ensure transactions were properly coded in accordance with the EPP. Our primary concern is whether unallowable transactions have been included, suggesting the LEA improperly reported expenditures from unallowable sources which could have been improperly included on ODE’s maintenance of effort computation.  **2.2** **Level of Effort** – *Supplement Not Supplant*  a. For Title I, Part A, ensure the LEA has selected one of two methodologies for allocating their non-federal resources to their school buildings. They should be able to produce a written methodology to show the state and local resources provided to each building (before the use of federal funds). The state is not prescribing what should be written on that methodology but district officials should be able to explain the reasons for any discrepancies in the amounts of state and local resources provided to their buildings. It is also important to note that there are exclusions from the required methodology including:   * Districts that only have one building (i.e. charter schools) * Districts with only Title I schools * Districts with a grade span that contains only a single school, non-Title I schools or all Title I schools   b. For non-Title I expenditures, ascertain if the non-Federal entity used Federal funds to provide services which they were required to make available under Federal, State, or local law and were also made available by funds subject to a supplement not supplant requirement.  c. Ascertain if the non-Federal entity used Federal funds to provide services which were provided with non-Federal funds in the prior year.  (1) Identify the federally funded services.  (2) Perform procedures to determine whether the Federal program funded services that were previously provided with non-Federal funds.  (3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of Federal contribution.  d. If there is a presumption of supplanting for a transaction, evaluate the supporting documentation for rebutting the presumption.  **3. Earmarking**  a. Identify the applicable percentage or dollar requirements for earmarking.  b. Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).  c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.  d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).  Transferability  (a) For funds transferred during a fiscal year’s carryover period, ensure the total amount transferred from the fiscal year’s allocation base does not exceed the maximum percentage.  (b) Ensure funds are transferred to the receiving program’s allocation for the same fiscal year that the funds were allocated to the transferring program.  e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.  f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type. Trace student count data to underlying documentation. |

### Audit Implications Summary

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

## L. REPORTING

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

### OMB Compliance Requirements

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

*Financial Reporting*

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

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

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

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

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

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

*Performance and Special Reporting*

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

Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:

1. Have a direct and material effect on the program.

2. Are capable of evaluation against objective criteria stated in the statutes, regulations, contract or grant agreements pertaining to the program.

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

**Source of Governing Requirements**

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

ED in 2 CFR 3474.5 may allow exceptions for classes of Federal awards or non-federal entities subject to the requirements of 2 CFR Part 200, however, those will only be permitted in unusual circumstances and will only be publishes on the OMB website at [www.whitehouse.gov/omb/](http://www.whitehouse.gov/omb/). 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.

**Part 4 OMB Program Specific Requirements**

***US Department of Education Crosscutting Information contains the following topics. Additional guidance on each topic can be found at this*** [***link***](Reporting%20US%20Dept%20Ed%20Crosscutting.pdf)***:***

1. **Financial Reporting**

2. **Performance Reporting** - Not Applicable

3. **Special Reporting** – Not Applicable

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

### Additional Program Specific Information

**State of Ohio**

At the end of the grant period, entities are required to submit a final expenditure report (FER). A FER must be submitted to show how grant funds were expended during the grant period. Any unused funds will be reported on the FER and, if permitted, moved forward for the next fiscal year. If funds were awarded but no grant funds were expended during the year, an FER must be filed reflecting zero expenditures.

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 15*)*

Final Expenditure Report for Paper Grants are due August 30.

Final Expenditure Report for CCIP Grants are due September 30.

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 5*)*

Submitting the FER late increases the risk of an audit finding. The grantee also will be considered higher risk for monitoring purposes. The FER can be started as early as July 1 of each fiscal year and is due no later than Sept. 30. The closeout of the grant involves reporting but could include issues regarding carryover, refunds and rebates, reviews and audits. Guidance on these areas is provided.

Carryover for applicable grants does not move forward into the current year’s application until the FER is approved by the Office of Grants Management.

*(Source:* [ODE Grants Manual](http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Grants-Administration/Sections/Grants-Manual/Managing-Your-Grant.pdf.aspx?lang=en-US), Page 16*)*

Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amounts actually expended, not encumbered).

*(Source:* [*http://education.ohio.gov/Topics/School-Improvement/Federal-Programs/Expenditures-Information*](http://education.ohio.gov/Topics/School-Improvement/Federal-Programs/Expenditures-Information)*)*

### 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.  **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.**  **Additional ODE Pass Through Testing Steps** |
| 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.   1. Determine whether amounts reported were only those amounts actually expended during the report period, including obligations liquidated within 90 days of the report period (i.e., encumbrances should not be included).   (6) Determine whether the report was submitted within 90 days after the end of the project period.  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

**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.**

**Note:** Transfers of Federal awards to another component of the same auditee under [2 CFR part 200, subpart F](2CFR200_subpart_F.pdf), do not constitute a subrecipient or contractor relationship.

### OMB Compliance Requirements

A pass-through entity (PTE) must (see here for [2 CFR 200.331(a)](2CFR200.331(a).pdf)):

- *Identify the Award* *and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following (see here for [2 CFR 200.331(b)-(f)](2CFR200.331(b)_through_(f).pdf)):

1. The subrecipient’s prior experience with the same or similar subawards;
2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
3. Whether the subrecipient has new personnel or new or substantially changed systems; and
4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by [2 CFR section 200.521](2CFR200.521.pdf).

* *Ensure Accountability of For-Profit Subrecipients* – Some Federal awards may be passed through to for-profit entities. For-profit subrecipients are accountable to the PTE for the use of the Federal funds provided. Because 2 CFR part 200 does not make subpart F applicable to for-profit subrecipients, the PTE is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients for the subaward. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits ([2 CFR section 200.501(h)](2CFR200.501(h).pdf)).

**Source of Governing Requirements**

The requirements for subrecipient monitoring for the subaward are contained in 31 USC 7502(f)(2) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), [2 CFR sections 200.330](2CFR200.330.pdf), [.331](2CFR200.331.pdf), and, [501(h)](2CFR200.501(h).pdf); Federal awarding agency regulations; and the terms and conditions of the award.

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Agency Codification Adjustments/Exceptions:**

ED in 2 CFR 3474.5 may allow exceptions for classes of Federal awards or non-federal entities subject to the requirements of 2 CFR Part 200, however, those will only be permitted in unusual circumstances and will only be publishes on the OMB website at [www.whitehouse.gov/omb/](http://www.whitehouse.gov/omb/). 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.

**Part 4 OMB Program Specific Requirements**

There were no Part 4 OMB Program Specific Compliance Requirements noted for Subrecipient Monitoring.

*(Source: 2019 OMB Compliance Supplement Department of Education CFDA: 84.367 Supporting Effective Instruction State Grant Procedures)*

### Additional Program Specific Information

None noted.

### Audit Objectives and Control Testing

[**See here for the OMB Supplement Audit Objectives and Compliance Requirements**](Subrecipient_Monitoring_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**: The auditor may consider coordinating the tests related to subrecipients performed as part of C., “Cash Management” (tests of cash reporting submitted by subrecipients); E., “Eligibility” (tests that subawards were made only to eligible subrecipients); and I., “Procurement and Suspension and Debarment” (tests of ensuring that a subrecipient is not suspended or debarred) with the testing of “Subrecipient Monitoring.”  **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 PTE’s subrecipient monitoring policies and procedures to gain an understanding of the PTE’s process to identify subawards, evaluate risk of noncompliance, and perform monitoring procedures based upon identified risks.   2. Review subaward documents including the terms and conditions of the subaward to ascertain if, at the time of subaward (or subsequent subaward modification), the PTE made the subrecipient aware of the award information required by [2 CFR section 200.331(a)](2CFR200.331(a).pdf) sufficient for the PTE to comply with Federal statutes, regulations, and the terms and conditions of the award.  3. Review the PTE’s documentation of monitoring the subaward and consider if the PTE’s monitoring provided reasonable assurance that the subrecipient used the subaward for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward.  4. Ascertain if the PTE verified that subrecipients expected to be audited as required by [2 CFR part 200, subpart F](2CFR200_subpart_F.pdf), met this requirement [(2 CFR section 200.331(f)](2CFR200.331(f).pdf)). This verification may be performed as part of the required monitoring under [2 CFR section 200.331(d)(2)](2CFR200.331(d)(2).pdf) to ensure that the subrecipient takes timely and appropriate action on deficiencies detected though audits. |

### 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 – Participation of Private School Children

### OMB Compliance Requirements

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

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

*(Source: 2019 OMB Compliance Supplement 3.2)*

**Part 4 OMB Program Specific Requirements**

***US Department of Education Crosscutting Information can be found at this*** [***link***](Part%20of%20Private%20School%20Children%20US%20Dept%20Ed%20Crosscutting.pdf)***.***

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

### Additional Program Specific Information

See ODE’s “Nonpublic School Service Questions and Answers” for further info - <https://ccip.ode.state.oh.us/DocumentLibrary/ViewDocument.aspx?DocumentKey=80988>

*(Source: Ohio Department of Education Office of Federal Programs)*

### Audit Objectives and Control Testing

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

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

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

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

1. Determine whether (1) the LEA, SEA, or other agency receiving ESEA funds has conducted timely consultation with private school officials to determine the kind of educational services to provide to eligible private school children, (2) the planned services were provided, and (3) the required amount was used for private school children.

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

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

### Suggested Audit Procedures

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| **Suggested Audit Procedures – Compliance (Substantive Tests)**  **(Reference / link to documentation where testing was performed testing):** |
| **Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.** |
| a. Verify, by reviewing minutes of meetings and other appropriate documents, that the SEA or LEA conducted timely consultation with private school officials in making its determinations and set aside the required amount for private school children.  b. Review program expenditure and other records to verify that educational services that were planned were provided.  c. For Title I, Part A, verify that the amount of funds available for equitable services in an LEA was determined by multiplying the proportion of private school children from low-income families residing in participating public school attendance areas by the LEA’s total Title I, Part A allocation.  d. If the LEA provides services to eligible private school students under an arrangement with a third-party provider, verify that the LEA retains proper administration and control by having a written contract that:  (1) Describes the services to be provided; and  (2) Provides that the LEA retains ownership of materials, equipment, and property purchased with Federal I funds.  e. For programs other than Title I, Part A, verify that expenditures are equal on a per-pupil basis for public and private school students, teachers and other educational personnel, taking into consideration their numbers and needs as required by 34 CFR section 299.7. |

### Audit Implications Summary

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

## Program Testing Conclusion

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

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

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

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

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

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

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

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| **Cross-reference to internal control matters (significant deficiencies or material weaknesses), if any, documented in the FACCR:** |
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| **Cross-reference to questioned costs and matter of noncompliance, if any, documented in this FACCR:** |
|  |

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

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

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