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Auditor of State

**LOCAL GOVERNMENT AGENCY  
FEDERAL AWARD COMPLIANCE CONTROL RECORD**

**COUNTY JOB AND FAMILY SERVICES TESTING  
January 2010**

<b>NAME OF CLIENT:</b>	
<b>YEAR ENDED:</b>	2009

<b>FEDERAL AWARD NAME:</b>	Children's Health Insurance Program (Title XXI) (CHIP)
<b>CFDA#:</b>	#93.767

Introduction
Part I – OMB Compliance Supplement Information
Part II – Other Program Information

Applicable Compliance Requirements <sup>1</sup>	
A. Activities Allowed or Unallowed	H. Period of Availability of Federal Funds
B. Allowable Costs/Cost Principles	I. Procurement and Suspension and Debarment
C. Cash Management	L. Reporting
F. Equipment and Real Property Management	M. Subrecipient Monitoring
G. Matching, Level of Effort, Earmarking	N. Special Tests and Provisions

Compliance Requirements Not Applicable <sup>2</sup>	
D. Davis-Bacon Act	J. Program Income <b>(N/A per ODJFS)</b>
E. Eligibility <b>(Not tested at the County level)</b>	K. Real Property Acquisition and Relocation Assistance

Prepared by AA		Date	
Reviewed by AM		Date	
Reviewed by SAM		Date	

**Please note:** This FACCR was prepared using the 2009 OMB Compliance Supplement and Ohio Administrative Code and Ohio Revised Code sections applicable at that time. Due to potential revisions to Ohio Administrative Code and Ohio Revised Code sections governing the grant not available at this time, auditors should review the applicable compliance requirements for changes that may impact the program prior to using this FACCR for testing. In addition, we will make modifications to this FACCR for any additional information provided by ODJFS as well as any changes deemed necessary after performing subsequent testing of the procedures.

<sup>1</sup> The auditor should always:

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

If changes are noted, document them in the W/P's and consult with Accounting and Auditing for an appropriate FACCR modification.

<sup>2</sup> Auditors should review the determination of the requirements above for applicability. Certain requirements may not be applicable because either they do not apply to the program or because the auditee has no evidence of transactions or events subject to those particular requirements. Auditors can check the Matrix of Compliance Requirements, Part 2, viewable at [http://www.whitehouse.gov/omb/circulars\\_a133\\_compliance\\_09toc/](http://www.whitehouse.gov/omb/circulars_a133_compliance_09toc/) to determine the applicability of programs OMB lists in its Compliance Supplement. Otherwise, review grant documents to help determine a requirement's applicability.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

Conclusion	
<b>The opinion on this major program should be:</b>	
<b>Unqualified:</b>	
<b>Qualified (describe):</b>	
<b>Adverse (describe):</b>	
<b>Disclaimer (describe):</b>	

Cross-reference to internal control matters (significant deficiencies or material weaknesses), if any, documented in the FACCR:

Cross-reference to questioned costs and matter of noncompliance, if any, documented in this FACCR:

Cross-reference to any Management Letter items and explain why not included in the A-133 Report:
<p>The following are required to be reported under A-133:</p> <ul style="list-style-type: none"> <li>• Significant deficiencies in internal control over major programs</li> <li>• Material noncompliance with the laws, regulations, and provisions of contracts and grant agreements related to major programs</li> <li>• Known questioned costs greater than \$10,000 (and, for major programs, known questioned costs when likely questioned costs are greater than \$10,000)</li> <li>• Other types of findings (e.g., fraud)</li> </ul> <p>The matrix in Exhibit 12-1 of the AICPA Audit Guide, <i>Government Auditing Standards and Circular A-133 Audits</i>, shows that a matter must meet the following in order to be communicated in the management letter:</p> <ul style="list-style-type: none"> <li>• If fraud or an illegal act, it must be inconsequential (regardless of whether the act related to a federal program or not)</li> <li>• If a violation of contract or grant agreement, it must be inconsequential (regardless of whether the act related to a federal program or not)</li> </ul>

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## INTRODUCTION

### PART I – OMB COMPLIANCE SUPPLEMENT INFORMATION

(Source: 2009 OMB Compliance Supplement)

#### I. Program Objectives

Title XXI of the Social Security Act (Act) authorizes the Children's Health Insurance Program (CHIP) to assist State efforts in initiating and expanding the provision of child health assistance to uninsured, low-income children. Under Title XXI, States may provide child health assistance primarily for obtaining health benefits coverage through (1) obtaining coverage under a separate child health program that meets specific requirements; (2) expanding benefits under the State's Medicaid plan under Title XIX of the Act; or (3) a combination of both.

To be eligible for funds under this program, States must submit a State child health plan (State plan), which must be approved by the Secretary.

#### II. Program Procedures

**Although the below information may not impact counties directly, to effectively audit these program auditors should understand all aspects of each program. This information is directly from the OMB Compliance Supplement and gives the auditors information on how CHIP operates.**

##### Administration and Services

At the Federal level, CHIP is administered by the Department of Health and Human Services, through the Center for Medicaid and State Operations (CMSO) of the Centers for Medicare and Medicaid Services (CMS).

Title XXI authorizes grants to States that initiate or expand health insurance programs for low-income, uninsured children. Under title XXI, CHIP is jointly financed by the Federal and State governments and is administered by the States. Within broad Federal guidelines, each State determines the design of its program, eligible groups, benefit packages, payment levels for coverage and administrative and operating procedures. CHIP provides a capped amount of funds to States on a matched basis for fiscal years (FY) 1998 through 2007. Federal payments under Title XXI to States are based on State expenditures under approved plans that could be effective on or after October 1, 1997.

##### State Plans

Title XXI State plans and amendments to those plans are approved in CMS's central office. The plans are submitted for review by an intra-Departmental team, which must decide upon approval or disapproval within a 90-day period. This "90-day clock" can be stopped by sending a formal written request for additional information from the State, and can be restarted at the same point when a response is formally received. Copies of State plans are available from the State CHIP administrator.

##### Waivers

The State may apply for a waiver of CHIP Federal requirements. Waivers are intended to provide flexibility needed to enable States to try new or different approaches to the efficient and cost-effective delivery of health care services, or to adapt their programs to the special needs of particular areas or groups of enrollees. Waivers allow exceptions to State plan requirements that permit the State to implement innovative programs or activities on a time-limited basis. Such demonstration projects are subject to specific safeguards for the protection of enrollees and the program. The Secretary will approve only demonstration projects that are consistent with key principles of the CHIP statute. States' waiver authority is found at 42 USC 1397gg(e), which extends to CHIP the Medicaid waiver authority at 42 USC 1315.

#### III. Source of Governing Requirements (CFR, USC, grantor manual section, etc.)

This program is authorized by Section 4901(a) of the Balanced Budget Act of 1997 (BBA), Pub. L. No. 105-33, as amended by Pub. L. No. 105-100, added Title XXI to the Social Security Act (Act). Title XXI authorizes CHIP to assist State efforts to initiate and expand the provision of child health assistance to uninsured, low-income children. Title XXI is codified at 42 USC 1397aa-1397jj. The regulations for this program are found at 42 CFR part 457.

Awards under CHIP are no longer excluded from coverage under the HHS implementation of the A-102 Common Rule, 45 CFR part 92 (*Federal Register*, September 8, 2003, 68 FR 52843-52844). This change is effective for any grant award under this program made after issuance of the initial awards for the second quarter of Federal fiscal year (FY) 2004. This program also is subject to the requirements of 45 CFR part 95 and the cost principles under Office of

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

Management and Budget Circular A-87 (as provided in *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, HHS Publication ASMB C-10, available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>).

#### **Availability of Other Program Information**

States and other interested parties can access information on the Department's policies on this and other issues on the Internet at <http://www.cms.gov/>.

#### **Other Sources:**

- **2 CFR 225 is the codification of OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments)**
- **45 CFR 92 includes the Health and Human Services OMB Circular A-102 Grants Management Common Rule (State & Local Governments)**
- **45 CFR 74 includes the Health and Human Services OMB Circular A-110 (universities & non-profit organizations). OMB Circular A-110 was codified into 2 CFR 215.**
- **2 CFR 376 includes the Procurement Suspension & Debarment requirements for Health and Human Services**

**Auditors should cite using the applicable codified CFR references and not the OMB Circulars for noncompliance.**

## INTRODUCTION

### PART II – OTHER PROGRAM INFORMATION

#### I. Program overview:

In Ohio, CHIP is a Medicaid expansion program. It mirrors the Medicaid requirements and therefore should be tested in conjunction with the Medicaid program. The CRIS-E system will report the recipient as CHIP if they meet the eligibility requirements.

The 2009 OMB Compliance Supplement renamed this program the Children's Health Insurance Program (CHIP). Previously this program was the State Children's Insurance Program (SCHIP).

For more information about the CHIP program, auditors should review the ODJFS' Ohio Children's Health Insurance Plan (State Plan) at the link provided below in the ODJFS Program Information section below.

To familiarize the auditor with the information on the Medicaid program, the following is directly from the Medicaid FACCR (Introduction, Part II):

Counties accept applications, enter data into CRIS-E, and issue Medical cards to recipients determined eligible by CRIS-E based on the application information entered. Individual Medicaid recipients go to Medical Service providers (doctors, hospitals, pharmacies, nursing homes, etc.) who also must meet certain criteria to be eligible to provide services for Medicaid. Eligible Medicaid service providers submit invoices to the State level where they are interfaced with the Medicaid Management Information System (MMIS). MMIS verifies patients' eligibility through uploads of information from CRIS-E and determines allowability of the service provided. All CHIP payments are paid at the State level; therefore, the audit sample for tests of expenditures will be determined and tested by the State level audit team. The same audit sample for expenditures will be provided to applicable County audit team(s) for tests of eligibility (controls over input into CRIS-E only) for the State level audit of eligibility. Substantive tests of Eligibility (recalculations of determinations made by CRIS-E), will be performed by ODJFS/Medicaid Eligibility Quality Control (MEQC) Unit under the direction of the State level audit team.

EPSDT (AKA HEALTHCHEK) is also a requirement for CHIP (Part of Healthy Start) cases since CHIP is a Medicaid expansion program and testing should mirror the Medicaid FACCR around EPSDT and LPMDs.

#### **County Structure**

Each County is segregated into the following three areas:

- County Department of Job and Family Services (CDJFS) - Administers the Food Stamp Cluster, TANF, Child Care Cluster, Social Services Block Grant, CHIP, and Medicaid (i.e. all Public Assistance programs).
- Public Children Services Agency (PCSA) - Administers the Foster Care and Adoption Assistance programs.
- Child Support Enforcement Agency (CSEA) - Administers the Child Support Enforcement program.

*Note: In some Counties, all three areas are combined (Combined Agencies), whereas in other Counties, there may be two or three separate agencies.*

#### **Subgrant Agreement**

Each County agency (or agencies) enters into an Ohio Department of Job and Family Services Subgrant Agreement. This agreement describes the subgrant duties, ODJFS & subgrantee responsibilities, effective date of the subgrant, amount of grant/payments, audits of subgrantee, suspension and termination, breach and default, etc. Auditors should review their applicable County's subgrant agreement. This agreement indicates if each agency (Public Assistance (PA), Public Children Services Agency (PCSA), Child Support (CS)) is a stand-alone agency or if they are combined agencies. This will determine the cost pools that will need tested as part of the RMS process tested in Section A.

**ODJFS has county profiles and weblinks at <http://jfs.ohio.gov/County/cntydir.stm>. The "County Agency**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**Directory” has a list detailing the type of agency (single / combined) on the last 2 pages of the pdf document.**

**Additional information per ODJFS:**

- Counties cannot adopt policies to broaden or restrict the CHIP program, including eligibility of recipients or services provided.
- ODJFS Office of Fiscal and Monitoring Services performs ODJFS program County compliance reviews. The Counties do receive written results of these reviews. Auditors should request the compliance review from the County and consider the results of the reviews for planning purposes.
- ODJFS in preparation for the transition of the Counties becoming subrecipients, provided to each county a “Guided Self Assessment for County Family Services Agencies” (GSA). This is a comprehensive guide that incorporates the OMB compliance requirements, CFR and OAC requirements, identifies processes and controls ODJFS determined should be in place to meet specific federal requirements and corresponding risk assumed by the agency. Each County will receive from ODJFS the GSA for completion two weeks prior to their scheduled Monitoring review. The instructions request Counties to provide or attach policies and procedures to address the answers on the questionnaire. **Auditors should note the GSA is a tool developed by the ODJFS Bureau of Monitoring and Consulting Services (BMCS) to communicate compliance requirements imposed on the State and counties by Federal/State law or administrative rule (OAC). While the GSA does include authoritative guidance references, the GSA is not authoritative support for the requirements. In addition, the internal controls discussed throughout the GSA are only suggestions not required controls or ODJFS policy. The BMCS does not have authority to require specific internal controls without establishing an administrative rule. Therefore, auditors should not cite the GSA for reporting noncompliance or control deficiencies but cite the applicable law or rule governing the requirement.**

**This is a brief description of the Fiscal Process:**

- The County JFS receives different types of Funding:
  1. Mandated Share - ORC requires the county commissioners to share in the cost of the certain programs (known as mandated share). County JFS receive a mandated share from the County Commissioners (see OAC section in Program Funding section below). Mandated share is calculated by ODJFS and ODJFS enters the amounts for each funding source as a budget into the CFIS (fiscal computer system – see Section VI below). ODJFS notifies the County Commissioners in May or June of their mandated share for the next calendar year so the Counties have time to budget accordingly. Counties are required to make an adjustment equal to 1/12 of the total mandated share when they submit their monthly expenditure reports. County JFS sends a drawdown request for their anticipated needs and then report their expenditures monthly to ODJFS. ODJFS quarterly reconciliation evaluates and adjusts for the differences. While some counties may not pay their mandated share to the County JFS monthly, the County JFS must deduct no less than 1/12<sup>th</sup> of the amount on their monthly reporting of expenditures to ODJFS. (For example, if the County’s mandated share is \$1,200, the County JFS would include \$100 or more on the monthly reporting of expenditures regardless when the county paid the \$1,200.)
  2. Federal Allocation – There are two ways federal monies are allocated by the State:
    - Allocation specific to the grant – Adoption, Foster Care, Child Care Block Grant, Social Services Block Grant and TANF receive allocations specific to their grants. These allocations are based on mandated methodology guidelines, including demographics, program information pulled from CFIS, etc. There are no local requirements for the calculating or receiving of these allocations. The County receives notification of their grant allocation from ODJFS.
    - Allocations as part of the State wide allocation (referred to as pass through grants by ODJFS) – Medicaid, CHIP, Food Stamps, Child Support receive allocations as part of the state wide allocation. The County JFS receives notification of their allocation/grant budget from ODJFS through an Addendum to the Subgrant Agreement (discussed above). This allocation is determined at the beginning of the State fiscal year. There are no local requirements for the calculating or receiving of these allocations. Most dollars are provided as a pass-through allocation, therefore the statewide amount is provided to each county. The statewide amount is the amount for the entire State to administer the grants. There is no specific amount allocated to the County JFS. If the County JFS can show they have the match required, they can receive this funding up to the statewide pass-thru amount. ODJFS enters the Statewide

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

pass-thru into CFIS as a budget.

3. Income Maintenance (State Allocation) - County JFS also receives Income Maintenance (IM) monies. These are State monies County JFS can use to meet matching requirements or reimburse the county for administrative expenditures incurred in the administration of certain programs (See Section A of this document). IM amounts for each county are also entered into CFIS as budgets by ODJFS.

- In addition to their County JFS allocations, there are two opportunities for County JFS to release or receive monies: 1) They can swap funds with other counties, (this process must be approved by evidence of County Commissioners sign off) which goes through ODJFS to change the allocations in CFIS; or 2) In December or January they can apply for additional funds or to free up monies allocated to other grants. In this case, the County JFS must indicate need and ODJFS may provide additional funds as made available by other counties; however, the statewide allocation does not change. ODJFS changes the allocation in the CFIS system. While this does not require testing at the local level, auditors should be aware this may be the reason any such re-allocations in the system.
- For most grants, the County JFS can draw down funds on a weekly basis from the ODJFS (see Reporting L section of this document). Public Children Services Agency (PCSA) grants (Foster Care and Adoption Assistance) are reimbursement grants. All other grants an agency draws down funds for anticipated needs and monthly report expenditures. Quarterly adjustments are made for the differences.
- County JFS file quarterly and annual reports with ODJFS via CFIS. There is a quarterly reconciliation process performed by ODJFS. ODJFS issues a response to the initial report, County JFS may make corrections and then a final report (settlement) is issued after all corrections are made. The usual time frame for the reconciliation process is 2-3 months. For example, the Oct-Dec quarterly report is reconciled in March. Based on this reconciliation, if the County JFS was under funded in December, they would receive the reconciled funding from ODJFS in March. Auditors should consider this when testing the county financial statements.
- Some grants based on Annual Closeout Rule in OAC 5101:9-7-03.2 may cover overages. There is a TANF ceiling excess process that is part of the closeout level, however, this process is at the discretion of the Director and is only considered if adequate funding is available. Again, ODJFS makes these changes in the CFIS system. While this does not require testing at the local level, auditors should be aware this may be a reason for any such re-allocations in the system.
- All County JFS fiscal offices use Quic+ to record their expenditures. However, this system does not link information into the county auditor's expenditure ledgers. Counties can manually reenter the information or they may use a computer program for this upload process, such as PET (Maximus Program). Auditors should check to see if the information uploads to the County Auditor's system accurately by reconciling Form 2827 to the County Auditors records (see Reporting L section of this document).
- For most programs, expenditures are drawn down and expended based on State and Federal financial participation percentages. For example, for CHIP, the Federal share is 50% so the County JFS would be reimbursed 50% from Federal share and 50% from State (IM) or they could use county funding for the 50% state/local match. Once they use all their IM allocation, they must use local funding for the 50% match. This allocation is programmed into CFIS so auditors are not required to test the allocation; however, should be aware of this when testing the federal program.

See also **OAC 5101:9-7-03, 5101:9-7-03.1 and 5101:9-7-03.2** for additional information on the financing, reconciliation and closeout procedures. **Auditors should review this section for specific details on this process.**

## II. ODJFS Program Information (Source: ODJFS website)

### The State Children's Health Insurance Program (SCHIP) in Ohio

The Balanced Budget Act (BBA) of 1997 amended the Social Security Act to include Title XXI, the State Children's Health Insurance Program (SCHIP). Designed to provide increased access to health coverage for children in families with income too high to qualify for Medicaid (Title XIX) but too low to afford private coverage, SCHIP provides billions of dollars in match funds to states.

SCHIP offers states significant flexibility in the design and management of their SCHIP programs. States may: 1) expand Medicaid to include children in families with incomes higher than those served by their Medicaid program; 2) create a separate State program; or 3) create a program that combines the two. The target group for coverage is uninsured children in families at or below 200% of the [Federal Poverty Level \(FPL\)](#).

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

When the BBA was passed in August of 1997, Ohio had recently passed its SFY 1998-1999 biennial budget, which included funding and authority to expand Medicaid eligibility for children to 150% of FPL. With the state budget initiative as the basis, Ohio opted to implement SCHIP as a Medicaid expansion of the [Healthy Start](#) program. Healthy Start is Ohio's health coverage program for children and pregnant women, and it has existed since 1989.

Under Title XXI, the federal government matches state spending for SCHIP at a higher rate than that for Medicaid. The Department of Health and Human Services (HHS) is required to calculate and publish figures for the Federal Medical Assistance Percentages (Medicaid) and Enhanced Federal Medical Assistance percentages (SCHIP) annually. The FMAP percentages are available online: <http://aspe.hhs.gov/health/fmap.htm>.

Because SCHIP is for uninsured children, the Ohio SCHIP Medicaid expansion was combined with a regular Medicaid expansion. Uninsured children in the expansion population are covered by SCHIP, and their services are reimbursed at the SCHIP enhanced rate. Under-insured children are covered by regular Medicaid, and get the regular Medicaid match rate.

The Healthy Start expansion to 150% of FPL was implemented on January 1, 1998. In July of 2000, Ohio further expanded Healthy Start under SCHIP. This expansion raised the income limit for eligibility to 200% of FPL. For this second SCHIP expansion, there was no complementary Medicaid expansion for under-insured children, so children in this income range (151-200% of FPL) must be uninsured to be eligible.

For more information about Ohio's program expansion initiatives, visit: <http://jfs.ohio.gov/OHP/tao/toolkit.stm>.

#### Links to Ohio SCHIP documents:

- [State Plan](#)
- [Evaluation](#)
- [Annual Reports](#)

### III. Program State Funding

#### **OAC 5101:9-6-31 County share of public assistance expenditures and the mandated share budget. (eff. 8-21-08)**

(A) Each board of county commissioners is required by section [5101.16](#) of the Revised Code to pay the county share of public assistance (PA) net expenditures, which are currently defined as: (1) Ohio works first (OWF) benefit payments and county administration of OWF; (2) Prevention, retention and contingency (PRC) and county administration of PRC; (3) Disability financial assistance (DFA) and disability medical assistance (DMA) benefits, and county administration of those programs; (4) County administration of food stamps (FS); and (5) County administration of medicaid.

(B) ODJFS shall certify to the county board of commissioners of each county the amount required in the following state fiscal year (SFY) to meet the county share of PA expenditures as determined in paragraph (C) of this rule. This amount is the "mandated share." (**AOS Note:** Section C of 5151:9-6-31 was not included in the FACCR. It explains how the state determines the county's mandated share. Auditors should refer to this OAC if they need that information)

(4) ODJFS shall credit to a county the full amount of federal reimbursement ODJFS receives from the United States department of agriculture and department of health and human services for the county's expenditures for administration of FS and medicaid that ODJFS determines are allowable administrative expenditures.

(D) A county's share of PA expenditures determined under paragraph (C) of this rule may increase pursuant to sanction under section [5101.24](#) of the Revised Code.

(E) Each January, the board of county commissioners will appropriate, as required by section [5101.16](#) of the Revised Code, the amount certified by ODJFS as the SFY county share of PA expenditures and an additional five per cent of

that amount for transfer to the PA fund. The appropriation of an extra five per cent will allow for any increase that may occur with the next SFY calculated share.

After a notice and certification from ODJFS for the next SFY is received, the board may re-appropriate, for any purpose the board determines necessary, the amount appropriated in January that exceeds the total of the amount certified by ODJFS for the last six months of the current SFY and the first six months of the following SFY.

(F) ODJFS shall identify annual budgets and mandated share requirements for each local agency by calculating the county share based on the current PA expenditures reflected on the quarterly PA fund reconciliation report and cash benefit payments to participants. The computation of county share report must show the actual computation based on current SFY expenditures. ODJFS shall distribute the computation of county share report each quarter. The final SFY computation of county share report must indicate the county mandated share that will be assessed by ODJFS in the next SFY, up to a maximum ten per cent increase per SFY.

(G) The county family service agency shall enter the quarterly mandated share (MS) budgeted amount into the county financial system for each of the applicable programs as follows: (1) Medicaid as Medicaid MS; (2) FS as FS MS; (3) DFA as DFA MS; and (4) OWF/PRC as OWF/PRC MS.

(H) At the end of each month, the quarterly information consolidated plus (QuIC+) system must adjust the county reported expenditures and apply a portion of the Medicaid, FS, DA, and/or temporary assistance for needy families (TANF) expenditures to the mandated share budget.

(1) The total of the monthly expenditures applied to mandated share must be equal to one-twelfth of the annual mandated share budget. Adjustment detail must be available on the post allocation adjustment report within the QuIC+ system.

(2) Post allocation adjustments to reported expenditures must result in an automatic adjustment to the applicable MS budgets.

(3) In the event that the mandated share adjustments result in a negative balance on the expenditure report (reported expenditures are less than one-twelfth of the mandated share budget balance), the amount must be adjusted on the monthly over/under report and during quarterly and annual closeout reconcile.

(I) As required by section [5101.16](#) of the Revised Code, the board of county commissioners will transfer each month an amount equal to or greater than the sum of one-twelfth of the amount of funds certified as the mandated county share of PA expenditures for that SFY to the county PA fund. The one-twelfth mandated county share of PA expenditures amount is identified in the state reporting system. If the transfer schedule includes an amount other than one-twelfth per month, the aggregate amount transferred for the SFY must equal the county mandated share.

**OAC 5101:9-6-05 Income maintenance (IM) control funding, non-emergency transportation (NET) funding, and pregnancy related services and transportation (PRST) funding.** Effective: 10-24-08 [This rule designated an internal management rule.] **This rule was updated effective 7/20/09. See subsequent code section below.**

(A) The IM control funding is used by the county department of job and family services (CDJFS) to meet matching fund requirements or reimburses the county for administrative expenditures incurred in the administration of the disability assistance (DA) and disability medical assistance (DMA), food stamp (FS), and Medicaid programs. Each CDJFS will budget an IM control amount for each of the programs. The budgets will be established in the statewide reporting system and are identified as follows: (1) IM control DA and DMA; (2) IM control FS; and (3) IM control Medicaid.

(B) The funding for IM control budgets consists of one hundred per cent state funds, and is in addition to the county mandated share required by section [5101.16](#) of the Revised Code and detailed in rule 5101:9-6-31 of the Administrative Code.

Federal Medicaid administration funding and federal FS administration funding is passed through to the CDJFS at the federal financial participation (FFP) rate of fifty per cent. The income maintenance control allocation shall be used by

the CDJFS as the nonfederal match for both FS and medicaid administrative expenditures. In the event that a CDJFS's IM control FS or IM control medicaid budget is exhausted prior to the end of the state fiscal year (SFY), the CDJFS shall submit a completed JFS 01870 "Federal Medicaid and Federal Food Stamp Match Certification" (rev. 5/2008) to certify the availability of local nonfederal funds to be used as medicaid administration (MA) and FS match, prior to drawing additional medicaid or FS funding.

(C) The IM control funding is issued on a SFY basis, July first through June thirtieth.

(D) The following methodology is used to distribute available IM funds.

(1) Thirty per cent is based on county population less than one hundred per cent of the federal poverty level utilizing the most recent calendar year (CY) data from the U.S. bureau of census. (2) Thirty per cent is based on county population less than two hundred per cent of the federal poverty level utilizing the most recently available CY data from the U.S. bureau of census. (3) Thirty per cent is based upon the county's adjusted recipients. The number of adjusted recipients is equal to the total of the categories of non-public assistance FS recipients, DA recipients and DMA recipients, adult medicaid recipients, healthy start, children health insurance program (CHIP), TANF-related and medicaid recipients, and TANF recipients. (4) Five per cent is based upon the county's average unemployment rate as compared statewide in the same category, utilizing the most recently available report month. (5) Five per cent is based upon the county's poverty rate. A county's poverty rate is identified as the percentage of the county's population living at or below the federal poverty level.

(E) Upon completion of the steps in paragraph (D) of this rule, a 0.03 per cent adjusting factor is used to increase or decrease the funding based upon the county difference to the statewide average per capita income.

(F) The formula increases and decreases are capped at nine per cent and are based on the previous SFY. No county can earn more than nine per cent or be decreased by more than nine per cent each SFY.

In the event of an increase in the statewide allocation amount, the net gain is distributed to the CDJFS by applying the formula listed in this paragraph. In the event of a decrease in the statewide allocation amount, the formula is applied to the amount of net loss and proportionately deducted from the county's preceding SFY's allocation amount.

(G) The following expenditures may be properly coded against this funding: (1) DMA administration as contained in rule 5101:1-42-01 of the Administrative Code may be coded at one hundred per cent of the total expended amount; (2) Nonfederal share of FS administration as contained in division 5101:4 of the Administrative Code may be coded at fifty per cent of the total expended amount; (3) Nonfederal share of allowable FS employment and training (FSET) expenditures in excess of the FSET allocation as detailed in rule 5101:9-6-09 of the Administrative Code may be coded at fifty per cent of the total expended amount; and (4) Nonfederal share of medicaid administration may be coded against the IM control medicaid budget at fifty per cent of the total expended amount.

Nonfederal share of medicaid administration includes: (a) NET administration as contained in Chapter 5101:3-24 of the Administrative Code; (b) Managed health care program (MHCP) as contained in Chapter 5101:3-26 of the Administrative Code; (c) Supplemental security income (SSI) administration as contained in rule 5101:1-5-60 of the Administrative Code; (d) Pregnancy related services (PRS) administration and transportation as contained in rule 5101:3-4-10 of the Administrative Code; (e) Healthchek administration as contained in rule 5101:3-14-01 of the Administrative Code; and (f) Mental health/mental retardation and developmental disabilities (MH/MRDD) administration.

(H) NET, and PRST contracts, purchased services, and direct delivery services are funded outside of the county funding process. To receive reimbursement of NET and PRST costs, the CDJFS must report expenditures as follows: (1) For contract and purchased services, the appropriate program and classification codes must be reported on the JFS 02827 "Monthly Financial Statement" (rev. 11/2000). (2) For direct delivery services, the appropriate time study codes must be reported on the JFS 02710 "Income Maintenance RMS – Random Moment Sample Observation Form" (rev. 9/2007) or the JFS 02714 "Social Services RMS – Random Moment Sample Observation Form" (rev. 9/2007).

(I) CDJFS expenditures are captured through the RMS process and are reported on the JFS 02827 as described in rule

5101:9-7-03 of the Administrative Code.

(J) The definitions, requirements, and responsibilities contained in rule 5101:9-6-50 of the Administrative Code are applicable to this rule.

**5101:9-6-05 Income maintenance (IM) control funding, non-emergency transportation (NET) funding, and pregnancy related services and transportation (PRST) funding. Effective: 07/20/2009**

(A) The IM control funding is used by the county department of job and family services (CDJFS) to meet matching fund requirements or reimburses the county for administrative expenditures incurred in the administration of the disability financial assistance (DFA) and disability medical assistance (DMA), food assistance, and medicaid programs. The Ohio department of job and family services (ODJFS) will establish a budget for the IM control amount allocated to the CDJFS. The ODJFS will enter each CDJFS's aggregate budget in the statewide reporting system and for the following: (1) IM control DFA and DMA; (2) IM control food assistance; and (3) IM control medicaid.

(B) The funding for IM control budgets consists of one hundred per cent state funds, and is in addition to the county mandated share required by section [5101.16](#) of the Revised Code and detailed in rule 5101:9-6-31 of the Administrative Code.

Federal medicaid administration funding and federal food assistance administration funding is passed through to the CDJFS at the federal financial participation (FFP) rate of fifty per cent. The income maintenance control allocation shall be used by the CDJFS as the nonfederal match for both food assistance and medicaid administrative expenditures. In the event that a CDJFS's IM control food assistance or IM control medicaid budget is exhausted prior to the end of the state fiscal year (SFY), the CDJFS shall be required to provide local nonfederal funds to be used as medicaid administration (MA) and food assistance match.

(C) The IM control funding is issued on a SFY basis, July first through June thirtieth.

(D) The following methodology is used to distribute available IM funds.

(1) Thirty per cent is based on county population less than one hundred per cent of the federal poverty level utilizing the most recent calendar year (CY) data from the U.S. bureau of census. (2) Thirty per cent is based on county population less than two hundred per cent of the federal poverty level utilizing the most recently available CY data from the U.S. bureau of census. (3) Thirty per cent is based upon the county's "adjusted recipients." The number of adjusted recipients is equal to the total of the categories of non-public assistance food assistance recipients, DFA recipients and DMA recipients, adult medicaid recipients, healthy start recipients, children health insurance program (CHIP) recipients, TANF-related medicaid recipients, and TANF recipients. (4) Five per cent is based upon the county's average unemployment rate as compared statewide in the same category, utilizing the most recently available report month. (5) Five per cent is based upon the county's poverty rate. A county's poverty rate is identified as the percentage of the county's population living at or below the federal poverty level.

(E) Upon completion of the steps in paragraph (D) of this rule, a 0.03 per cent adjusting factor is used to increase or decrease the funding based upon the county difference to the statewide average per capita income.

(F) ODJFS caps the formula-calculated allocation amounts at a nine per cent increase and decrease from the previous SFY. If a decrease or increase in the statewide amount results in counties' allocations fluctuating more than nine per cent, ODJFS will not apply the formula, but will decrease or increase each county's previous SFY allocation by the percentage of change to the statewide amount.

(G) The following expenditures may be properly coded against this funding.

(1) DFA and DMA administration as contained in rule 5101:1-42-01 of the Administrative Code may be coded at one hundred per cent of the total expended amount; (2) Nonfederal share of food assistance administration as contained in division 5101:4 of the Administrative Code may be coded at fifty per cent of the total expended amount; (3) Nonfederal share of allowable food assistance employment and training expenditures in excess of the food assistance employment

and training allocation as detailed in rule 5101:9-6-09 of the Administrative Code may be coded at fifty per cent of the total expended amount; and (4) Nonfederal share of medicaid administration may be coded against the IM control medicaid budget at fifty per cent of the total expended amount. Nonfederal share of medicaid administration includes: (a) NET administration as contained in Chapter 5101:3-24 of the Administrative Code; (b) Managed health care program (MHCP) as contained in Chapter 5101:3-26 of the Administrative Code; (c) Supplemental security income (SSI) administration as contained in rule 5101:1-5-60 of the Administrative Code; (d) PRST administration as contained in rule 5101:3-4-10 of the Administrative Code; (e) Healthchek administration as contained in rule 5101:3-14-01 of the Administrative Code; and (f) Mental health/mental retardation and developmental disabilities (MH/MRDD) administration.

(H) NET, and PRST contracts, purchased services, and direct delivery services are funded outside of the county funding process. To receive reimbursement of NET and PRST costs, the CDJFS must report expenditures as follows:

(1) For contract and purchased services, the appropriate program and classification codes must be reported on the JFS 02827 "Monthly Financial Statement" (rev. 11/2000).

(2) For direct delivery services, the appropriate time study codes must be reported on the JFS 02710 "Income Maintenance RMS – Random Moment Sample Observation Form" (rev. 9/2007) or the JFS 02714 "Social Services RMS – Random Moment Sample Observation Form" (rev. 9/2007).

(I) CDJFS expenditures are captured through the RMS process and are reported on the JFS 02827 as described in rule 5101:9-7-03 of the Administrative Code.

(J) The definitions, requirements, and responsibilities contained in rule 5101:9-6-50 of the Administrative Code are applicable to this rule.

#### **IV. AOS Testing Considerations**

**Auditors should evaluate cost pools and reporting requirements that are consistent between ODJFS grant programs and only test these once rather than with each grant program. The following table shows where some efficiencies can be gained for common cost pools (FACCR Section A) and reports (FACCR Section L):**

<b>Reported on:</b>	<b>Program:</b>	<b>County Fund Paid from:</b>	<b>RMS Cost Pool</b>
JFS 02827	Medicaid, CHIP, Food Assistance, TANF, SSBG, CCBG	Public Assistance (PA) Fund	IMRMS / SSRMS
JFS 02750	Child Support Enforcement	Child Support Administrative Fund	CSRMS
JFS 02820	Foster Care & Adoption	Children Services Workers	CWRMS or SSRMS (if combined agency)

**For an overview of requirements tested by program: see AOS spreadsheet, ODJFS list of program & applicable requirements.**

#### **V. Reporting in the Schedule of Federal Awards Expenditures**

**CHIP benefits are paid by the State ODJFS; therefore, eligibility and recipient benefit payments will be audited by the State Region.**

**The County federal schedule will report administrative and other expenditures (whether charged directly to the program or allocated through a cost allocation plan (CAP) or cost pool).**

**Counties should use the Quic+ *Federal CFDA Detail Schedule* report for the amounts to report on the Federal Schedule. This report can be generated by program and for required dates (not just by state fiscal year). The state GRF monies also appear on this report but should not be reported on the Federal Schedule. The report includes Draw Payments (Receipts) and Expenditures. The non-GRF expenditures should be reported on the Federal Schedule and should reconcile to the CFIS *Schedule 1.F State Expenditure Reconciliation* report by Federal component type. The state receipts per the Quic+ *Federal CFDA Detail Schedule* report should**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**reconcile to the CFIS Schedule 1.F State Expenditure Reconciliation report by State component type. The local receipts per the Quic+ Federal CFDA Detail Schedule report should reconcile to the CFIS Schedule 1.F State Expenditure Reconciliation report by Local component type and the CFIS Schedule 1.D Statement of Net Expenditures by Source report.**

Per ODJFS, all grants are reported on a cash basis and should be presented likewise on the schedule of federal awards expenditures.

To ensure expenditures are reported accurately by CFDA#, auditors should also determine how multi-agency contract expenditures are recorded on the schedule of federal awards expenditures.

The local government should report federal expenditures for CFDA #93.767. A-133.310(b)(2) requires including pass-through numbers (if any) on the Schedule. However, OAKS is not currently assigning pass-through numbers. Although we suggest most local governments continue to create special cost centers to separately summarize amounts for each fiscal year, the Quic+ program should provide this information in sufficient detail for federal schedule testing/reporting. The Schedule should also report the following for this program:

- CFDA number: #93.767
- Grant Title: Children's Health Insurance Program (CHIP)
- Disbursements for each pass-through number (i.e., cost center).

**For 2009 risk assessment purposes, the County JFS programs should not be considered tested in the last two years even if testing was performed at the County JFS for the State JFS audit. The scope and materiality are vastly different between the state and county government audits. However, the results of testing can be considered when evaluating the risk and procedures for the programs.**

#### **ARRA**

AOS is not aware County JFS offices received CHIP ARRA money for 2009. However, if auditors note the County JFS office did receive CHIP ARRA monies they should include testing for these transactions in accordance with the grant agreement/guidelines and ARRA requirements and attach the ARRA addendum for testing.

#### **VI. Information systems, including a description on how they operate (i.e. CRIS-E, CORE, CFIS, QUIC+, PET)**

##### **Computer Systems**

The following State-level systems are utilized by Counties for these programs:

- CRIS-E - Used primarily to determine eligibility and benefit amounts for Food Stamps, TANF, CHIP, and Medicaid; and generates the voucher summary detail for these programs. It also maintains data entered by the case workers related to the recipients and their cases.  
  
ODJFS website gives specific CRIS-E reporting tools at [http://www.jfs.ohio.gov/owf/prc/Reporting\\_Tool.stm](http://www.jfs.ohio.gov/owf/prc/Reporting_Tool.stm)
- CORE - CORE was used by Counties to report their expenditure (2827, 2750, and 2820) and RMS activity to ODJFS via upload or e-mail. ODJFS establishes due dates for the various reports. ODJFS sends quarterly totals for CORE back to the Counties for verification. (**Note:** CFIS replaced CORE however, County JFS office may refer to it so this brief description of CORE is for auditor's information)
- CFIS – (County Finance Information System) July 1, 2008 County JFS finance offices began using CFIS (replaced CORE) which drives the financial reporting (Forms 2827, 2750, and 2820, RMS activity, etc). The current and archived CFIS information can be accessed at the County JFS site. All information flows from OAKS through CFIS and down to the county system. The County inputs grant information into the county system (QUIC+) which is uploaded into CFIS. Each grant is coded separately. ODJFS has a spreadsheet for coding in CFIS and a crosswalk from CORE to CFIS. ODJFS updates this information each year. QUIC+ is a Maximus system that integrates with CFIS. ISA will be testing CFIS and Quic+ (including the RMS System used to track Random Moment Sampling activity and allocation of program expenditures).

The OAKS general controls portion tested as part of the Statewide SAS 70, however, will continue to be on a state fiscal year (6/30). The state region will issue an Audit Division Advisory Memo (ADAM) explaining the work performed, as well as possible user control considerations.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

The initial period for review and testing of CFIS will be July 1, 2008 through September 30, 2009 to be used for county financial audits for the calendar year ending 12/31/2009.

The period will be October 1 through September 30<sup>th</sup> for subsequent years. This also includes the manual controls tested by the financial auditors.

- As noted above, County JFS fiscal offices use QUILC+ to record their expenditures. However, this system does not link the information into the county auditor's expenditure ledgers. The counties can manually reenter the information or they may use a computer program for this upload process, such as PET (Maximus Program). The State Region does not look at PET (or similar programs). Auditors will need to test the information in the PET system to the amounts recorded in the County Auditor's records for accuracy.

**NOTE: ODJFS is not granting auditors of County JFS programs direct access to these systems. ODJFS is encouraging County JFS offices to cooperate with audit requests. Auditors will either receive the information from the County JFS or the County JFS office may have one of their employees walk through the system information. Due to the information that may be received, auditors should follow established procedures for guarding confidential information. Auditors should determine at the pre-audit conference, what process should be followed regarding how information will be received and returned.**

## A. Activities Allowed or Unallowed

### Audit Objectives

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether Federal awards were expended only for allowable activities.

### Compliance Requirements

Important Note: For a cost to be allowable, it must (1) be for a purpose the specific award permits and (2) fall within 2 CFR 225's allowable cost guidelines. These two criteria are roughly analogous to classifying a cost by both program/function and object. That is, the grant award generally prescribes the allowable program/function while 2 CFR 225 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 2 CFR 225 to determine if pension costs (an object cost classification) are permissible. (2 CFR 225, Appendix B states they are allowable, with restrictions, so we would need to determine if the auditee met the restrictions.) Both the client and we should look at 2 CFR 225 even if the grant agreement includes a budget by object code approved by the grantor agency.

#### 1. *Activities Allowed*

- a. States have general flexibility in allocating their individual allotments toward activities needed to conduct the CHIP (42 USC 1397ee(a)). In addition to expenditures for child health assistance under the plan for targeted low-income children, other allowable activities, to the extent permitted by 42 USC 1397ee(c), include payment of other child health assistance for targeted low-income children; expenditures for health services initiatives for improving the health of children (targeted and other low income) under the plan; expenditures for outreach activities; and other reasonable costs incurred by the State to administer the plan (42 USC 1397ee).

2. *Activities Unallowed* - Federal funds may not be expended under the State plan to pay for any abortion or to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except if necessary to save the life of the mother or if the pregnancy is the result of incest or rape (42 USC 1397ee(c)).

(Source: 2009 OMB Compliance Supplement)

### Compliance Requirements – Program Specific Requirements

#### **RMS**

**OAC 5101:9-7-20 Income maintenance, workforce, social services, and child welfare random moment sample (RMS) time studies. (effective 2/1/08)** [This rule designated an Internal Management Rule] – **Auditors should refer to this section (<http://codes.ohio.gov/oac/5101%3A9-7-20>) for additional information on RMS.**

- Per this OAC code, the income maintenance random moment sample (IMRMS), workforce random moment sample (WFRMS), social services random moment sample (SSRMS), and child welfare random moment sample (CWRMS) time studies are designed to measure activity regarding various programs. Data collected from these time studies are used to calculate allocation statistics used to distribute cost pool expenditures to the appropriate programs. The percentages are used by the Ohio department of job and family services (ODJFS) to distribute administrative funds reported on the monthly financial statements or certification sheets as detailed in rule 5101:9-7-29 of the Administrative Code.

The RMS forms are time studies which are designed to measure county staff activity regarding income maintenance and social services programs. Both the Income Maintenance RMS (IMRMS) and the Social Services RMS (SSRMS) are completed on a quarterly basis by all positions performing directly related program functions, with the exception of positions performing administrative support or supervisory functions unless the person actually provides direct services. The RMS system selects the staff sample for completing the RMS from the staff rosters submitted by the county RMS

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## A. Activities Allowed or Unallowed

coordinators and determines the sampling times. The RMS system creates the ODJFS forms for the county RMS coordinator who then administers the forms and enters the results into the RMS module within the county's Maximus system.. Data collected from these time studies are used to calculate the percentage of time spent on the program. The percentages are used by the County agency system to allocate expenditures reported on the ODHS 2827 financial statements.

County expenditures primarily consist of administrative expenses, most of which are captured through the RMS process discussed above; however, there may be non-RMS related expenditures as noted above performing administrative support or supervisory functions only, such as the JFS Director, human resource employees, etc. These are the administrative staff whose expenses belong in the shared cost pool. If it can be determined that a supervisor only supervises staff in one program- type cost pool, that supervisor's expenses are included in the program-type cost pool and allocated along with their staff's expenses by the RMS statistics for that particular program type.

RMS based funding has a one month lag time. For example, RMS reporting for September, October and November drives the quarterly funding for October, November and December.

For specific questions on the RMS process, there is an RMS manual (dated 2/2008) available at <http://jfs.ohio.gov/ofs/bcfta/TOOLS/RMS/RMS%20Manual%20-%20February%202008.pdf>.

### RMS sample sizes required per OAC:

RMS Type	Agency Size	# of Observations
Income Maintenance (IMRMS)	Metro	Minimum of 2,300
Income Maintenance (IMRMS)	Suburban & Rural	Minimum of 354
Social Services (SSRMS), Child Welfare (CWRMS), Juvenile Ct	1-10 Participating Positions	Minimum of 33 per worker
Social Services (SSRMS), Child Welfare (CWRMS), Juvenile Ct	11-74 Participating Positions	Minimum of 354
Social Services (SSRMS), Child Welfare (CWRMS), Juvenile Ct	75 or more Participating Positions	Minimum of 2,400
Child Support (CSRMS)		Minimum of 354

### AOS Additional Testing Considerations

Sections A & B are most often tested using them same sample. Additional program specific requirements / testing considerations are included in Section A that would also affect Section B.

County testing will primarily consist of the following:

- Administrative expenses
- FTE/RMS/Cost pools
- Direct expenditures

Auditors will need to test pooled costs separately (RMS) from direct charges (County ledgers).

All salaries and indirect expenses are included in cost pools. There are two levels of allocation for County JFS expenditures. Costs benefiting all programs (rent, leases, utilities, supplies, indirect employee costs for positions such as the agency director, personnel, fiscal, related compensation, etc.) are included in the Shared Costs Pool and are allocated based on the Quarterly Report of CDJFS Full Time Equivalent (FTE) Positions submitted to ODJFS. Shared costs are distributed in QuiC+ based on the IM, SS, and CSEA FTE percentages.

More information regarding FTE reporting is available at <http://jfs.ohio.gov/ofs/bcfta/TOOLS/TOOLS.stm> . This webpage has a "FTE Reporting" section however the instructions for completing the form are included in the "Forms" section with JFS 4290.

**A. Activities Allowed or Unallowed**

<b>Allowable costs on FTE Report associated with Employees</b>			
<b>Reported on:</b>	<b>Program:</b>	<b>County Fund Paid from:</b>	<b>RMS Cost Pool</b>
JFS 02827	Medicaid, CHIP, Food Assistance, TANF, SSBG, CCBG	Public Assistance (PA) Fund	IMRMS / SSRMS
JFS 02750	Child Support Enforcement	Child Support Administrative Fund	CSRMS
JFS 02820	Foster Care & Adoption	Children Services Workers	CWRMS or SSRMS (if combined agency)

Costs are then allocated to the program level based on the RMS studies.

Auditors will need to test both FTE reporting and RMS. The FTE reporting testing is included in this section due to its impact on the allocation of expenditures.

Auditors can determine population for RMS testing from a summary report for the quarter on CFIS that uploads into the RMS system. There is a data file with this information in CFIS that can be downloaded at the County JFS site.

County JFS must complete and submit a plan to define EPSDT (non-NET contract) activities. Auditors should review this plan when testing EPSDT expenditures.

**In determining how the client ensures compliance, consider the following:**

**Control Objectives**

To provide reasonable assurance that Federal awards are expended only for allowable activities.

**Control Environment**

- Management sets reasonable budgets for Federal and non-Federal programs so that no incentive exists to miscode expenditures.
- Management enforces appropriate penalties for misappropriation or misuse of funds.
- Organization-wide cognizance of need for separate identification of allowable Federal costs.
- Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.

**Risk Assessment**

- Process for assessing risks resulting from changes to cost accounting systems.
- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a Federal program and not be detected.

**Control Activities**

- Accountability provided for charges and costs between Federal and non-Federal activities.
- Process in place for timely updating of procedures for changes in activities allowed.
- Computations checked for accuracy.
- Supporting documentation compared to list of allowable and unallowable expenditures.
- Adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause.
- Adequate segregation of duties in review and authorization of costs.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed.

**Information and Communication**

- Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.
- Establishment of internal and external communication channels on activities allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine activities allowed.
- Interaction between management and staff regarding questionable costs.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>A. Activities Allowed or Unallowed</b>	
<ul style="list-style-type: none"> <li>Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed under Federal awards.</li> </ul> <p><b>Monitoring</b></p> <ul style="list-style-type: none"> <li>Management reviews supporting documentation of allowable/unallowable activities.</li> <li>Flow of information from Federal or State agency to appropriate management personnel.</li> <li>Comparisons made with budget and expectations of allowable costs.</li> <li>Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.</li> </ul>	
<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
<p>Does the County JFS pay expenditures to the County via a CAP?</p> <p>How does the County ensure only applicable costs are included in the CAP?</p> <p>What procedures does the County JFS have in place to ensure they are only paying for allowable activities?</p> <p>What controls does the County JFS have to ensure costs are not paid through the CAP and directly to the County?</p> <p>What procedures does the County JFS have in place for only allowable costs input into Quic+ / CFIS?</p> <p>Does the County JFS have a separate EPSDT plan?</p> <p>What procedures does the County JFS have in place to ensure they follow the EPSDT plan?</p> <p>What procedures does the County JFS have to ensure administrative employees / costs are not reported as part of RMS, unless these employees provide direct services?</p> <p>How does the County ensure that:</p> <ul style="list-style-type: none"> <li>Employees are properly completing the RMS form;</li> <li>RMS forms are distributed in a timely manner;</li> <li>All RMS forms are accounted for and reference documentation to support the program and activity claimed;</li> <li>Forms for absent employees are properly completed; and</li> <li>Data from the RMS entered into the QUIc+ system matches the data on the RMS forms.</li> </ul> <p>For combine agencies, how does the County ensure that:</p> <ul style="list-style-type: none"> <li>FTE allocations for the shared cost pool are correct;</li> <li>Employees are assigned to the correct cost pool; and</li> <li>Employees are completing the correct RMS form.</li> </ul> <p><b>The ODJFS Guided Self-Assessment (GSA) requests County JFS offices to provide controls over activities allowed and allowable costs. Auditors should review the information provided by the County JFS for this assessment to help gain an understanding of the procedures in place.</b></p>	
<b>Suggested Audit Procedures – Compliance (Substantive Tests) (See also Section B procedures)</b>	<b>WP Ref.</b>
<p><b>Reminder: Auditors should gain efficiencies by testing in conjunction with other programs with the same requirements for CAP, FTE and RMS.</b></p> <p><b>Direct Costs</b></p> <p>1) Identify (and document) the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.</p> <p>2) When allowability is determined based upon summary level data (voucher summaries, etc.), perform procedures to verify that:</p>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**A. Activities Allowed or Unallowed**

- 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 representative number of transactions and perform procedures (vouch, scan, etc.) to verify that the transaction was for an allowable activity.
- 4) The auditor should be alert for large transfers of funds from program accounts, which may have been used to fund unallowable activities.
- 5) If the client has made subawards under the program, select a representative number of awards and determine whether they were only approved for activities as identified in step 1 above. See also Section M.
- 6) Obtain management's explanation for any significant questionable expenditures/subawards. Analyze responses and obtain any additional documentation considered necessary.

**CAP**

- 1) Summarize monthly payments to the County and review CAP for accuracy of payment. Ensure that payments made were for the current or prior period and they were within the current biennium.
- 2) Review CAP for reasonableness of County JFS expenditures.

**FTE Reporting**

- 1. Determine if the number of FTE by program area category is consistent with the payroll in the previous quarter.
- 2. Pull a representative sample of employees and determine if they are reported in the correct program area category based on documentation. (i.e. job duties, job description, personnel file, employee interview, etc.)

**RMS**

- 1. Determine RMS cost pools that require testing (i.e. Income Maintenance, Social Services, Child Support, Child Welfare).
- 2. Interview the RMS Coordinator. Document RMS coordinator name and date of interview. Document any weaknesses noted. Interview could include questions such as the following:
  - a. Are you familiar with the RMS procedures summarized in the Administrative Procedures Manual?
  - b. What is your role in the RMS process?
  - c. When do you hand out RMS observation forms?
    - i. Quarterly
    - ii. Monthly
    - iii. Weekly
    - iv. Daily
    - v. Other (explain)
  - d. Who do you give these forms to?
  - e. What do you do if you receive an RMS observation form for an employee who no longer works in your office?
  - f. How do you ensure the forms are filled out correctly?
  - g. Have you received any special training or instructions on RMS procedures within the past 12 months?
  - h. How do you complete the RMS control sample? What is the purpose of the control sample.
- 3. For cost pools tested, determine if the RMS Coordinator monitored receipt of the Observation forms

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**A. Activities Allowed or Unallowed**

to ensure completeness, as evidenced by markings on the Observation listing.

4. Scan all 4 quarterly RMS Tabulation Reports to identify any indications of misuse or manipulation of RMS codes (could help determine which quarter to test in step 5):
  - a. High instances of un-funded codes
  - b. Large variances (over 20%) in RMS coding between quarters
  - c. Distribution of RMS codes between programs
  
5. Obtain one quarter's original RMS forms for each population to be tested (i.e. Shared, Income Maintenance, Social Services, Child Support, Child Welfare)
  - a. Select a representative sample of forms, test for the following attributes and note any exceptions.
    - i. Section 1 was completed properly - form includes a case number or other identifier or is marked 001
    - ii. Section 2 includes the activity, where applicable
    - iii. Determine if documentation exists to substantiate the claimed program and/or activity on the RMS sample form
    - iv. Preparer initialed any changes/alterations/amendments to the original form they completed. If employee has separated from the agency or is on an extended absence, the supervisor or the RMS coordinator may complete and initial the change and document the reason for substitution.
    - v. Unauthorized alterations (erasures, white-outs, etc.) Note: Only the individual completing the observation form may revise it if a mistake is identified. Therefore, changes should be initialed by the preparer. Also look for hits with no initials by the individual completing the form, multiple program and/or activities marked, etc.
    - vi. Employee designated on the form initialed the form
    - vii. Quality control sample forms were completed by the RMS Coordinator and initialed by the coordinator and employee
    - viii. No unauthorized or vacant positions were included in the RMS sample
    - ix. Trace to RMS Sample Reference List
  
  - b. Haphazardly choose forms marked with non-funded codes (997-999) to the RMS Reference List in Step 5 to determine if they were input into the RMS system accurately. (Funded codes tested in step 4.)
  
6. From the RMS sample in Step 4, select a sample of employees (no duplicates) and determine if RMS charge is supported
  - a. Obtain payroll listing with job titles and compare to RMS forms completed
  - b. Interview case workers who participate in RMS. Document employee name and date of interview. Interview could include questions such as the following:
    - i. Are you familiar with the RMS procedures summarized in the Administrative Procedures Manual?
    - ii. What do you do when you receive and observation form?
      1. Complete immediately
      2. Hold until appropriate time
      3. Complete at my convenience
      4. Other (explain)
    - iii. When do you receive the RMS observation forms?
      1. Quarterly
      2. Monthly
      3. Weekly
      4. Daily
      5. Other (explain)
    - iv. What items need to be completed on the form?
      1. What program you are working with

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

A. Activities Allowed or Unallowed	
<ul style="list-style-type: none"> <li>2. Activity code</li> <li>3. Initials</li> <li>4. Case number</li> <li>c. Prepare a narrative of job duties from observation and / or interview with employee</li> <li>d. Match job activities from RMS with job descriptions in personnel file</li> <li>e. If employee is an administrative or supervisory, determine whether they are appropriately completing the RMS forms               <ul style="list-style-type: none"> <li>i. Administrative support employees can participate in RMS if they provide direct services</li> <li>ii. Supervisory employees can participate in RMS if they provide direct services over 50% of the time</li> </ul> </li> <li>7. Obtain the County RMS Sample Reference List for that quarter. (This report is a recap from ODJFS of the RMS form information input into the system by the County JFS).               <ul style="list-style-type: none"> <li>a) Determine if the required number of observations were performed</li> <li>b) Pull a representative sample for each population identified as funded codes (not 997-999).                   <ul style="list-style-type: none"> <li>i. Trace information on the RMS Reference List matches the original RMS form</li> <li>ii. Where forms are missing, obtain data from the county RMS Reference List and have the county provide case documentation to support the claimed program activity.</li> </ul> </li> </ul> </li> </ul> <p><b>Note:</b> The last two columns of the county RMS Reference List includes the program and activity codes.</p> <p><b>Reminder:</b> Auditors should not put confidential information in the current working papers and should follow established procedures for protection of confidential information.</p>	
Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)	
<p><b>If Sections A &amp; B are tested using the same sample, control deficiencies and/or noncompliance should be evaluated to determine whether they impact Activities Allowed or Unallowed or Allowable Costs/Cost Principle requirements, or both.</b></p>	
<p><b>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</b></p> <p><b>B. Assessment of Control Risk:</b></p> <p><b>C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:</b></p> <p><b>D. Results of Compliance (Substantive Tests) Tests:</b></p> <p><b>E. Questioned Costs: Actual _____ Projected _____</b></p>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **B. Allowable Costs / Cost Principles**

### **Audit Objectives**

#### ***State/Local Department or Agency Costs – Direct and Indirect***

- 1) Obtain an understanding of internal control over the compliance requirements for State/local department or agencies costs, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether the governmental unit complied with the provisions of 2 CFR 225 as follows:
  - a) Direct charges to Federal awards were for allowable costs.
  - b) Charges to cost pools used in calculating indirect cost rates were for allowable costs.
  - c) The methods for allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs (e.g., all activities that benefit from the indirect cost, including unallowable activities, must receive an appropriate allocation of indirect costs).
  - d) Indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements.
  - e) For local departments or agencies that do not have to submit an ICRP to the cognizant Federal agency, indirect cost rates were applied in accordance with the ICRP maintained on file.

#### ***State/Local-Wide Central Service Costs***

- 1) Obtain an understanding of internal control over compliance requirements for central service costs, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether the governmental unit complied with the provisions of 2 CFR 225 as follows:
  - a) Direct charges to Federal awards were for allowable costs.
  - b) Charges to cost pools allocated to Federal awards through central service CAPs were for allowable costs.
  - c) The methods of allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs, which benefit from the central service costs being allocated (e.g., cost allocation bases include all activities, including all State departments and agencies and, if appropriate, non-State organizations which receive services).
  - d) Cost allocations were in accordance with central service CAPs approved by the cognizant agency or, in cases where such plans are not subject to approval, in accordance with the plan on file.

#### ***State Public Assistance Agency Costs***

- 1) Obtain an understanding of internal control over compliance requirements for State public assistance agency costs, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether the governmental unit complied with the provisions of 2 CFR 225 as follows:
  - a) Direct charges to Federal awards were for allowable costs.
  - b) Charges to cost pool allocated to Federal awards through the public assistance CAP were for allowable costs.
  - c) The approved public assistance CAP correctly describes the actual procedures used to identify, measure, and allocate costs to each of the programs operated by the State public assistance agency. However, the actual procedures or methods of allocating costs must be in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs.
  - d) Charges to Federal awards are in accordance with the approved public assistance CAP. This does not apply if the auditor first determines that the approved CAP is not in compliance with the applicable cost principles and/or produces an inequitable distribution of costs.
  - e) The employee time reporting systems are implemented and operated in accordance with the methodologies described in the approved public assistance CAP.

### **Compliance Requirements**

The following OMB cost principles circulars prescribe the cost accounting policies associated with the administration of Federal awards by (1) States, local governments, and Indian tribal governments (State rules for expenditures of State funds apply for block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and for other programs specified on Appendix I); (2) institutions of higher education; and (3) non-profit organizations. Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from OMB's cost principles

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **B. Allowable Costs / Cost Principles**

circulars, but are subject to requirements promulgated by the sponsoring Federal agencies (e.g., the Department of Health and Human Services' 45 CFR part 74, appendix E). The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government, or indirectly through a pass-through entity. The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates (e.g., methodologies used to recover facilities and administrative costs (F&A) at institutions of higher education). Federal awards include Federal programs and cost-type contracts and may be in the form of grants, contracts, and other agreements.

The three cost principles circulars are as follows:

- **OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." (2 CFR part 225).**
- **OMB Circular A-21, "Cost Principles for Educational Institutions." (2 CFR part 220)** - All institutions of higher education are subject to the cost principles contained in OMB Circular A-21, which incorporates the four Cost Accounting Standards Board (CASB) Standards and the Disclosure Statement (DS-2) requirements as described in OMB Circular A-21, sections C.10 through C.14 and Appendices A and B.
- **OMB Circular A-122, "Cost Principles for Non-Profit Organizations." (2 CFR part 230)** - Non-profit organizations are subject to OMB Circular A-122, except those non-profit organizations listed in OMB Circular A-122, Attachment C that are subject to the commercial cost principles contained in the Federal Acquisition Regulation (FAR). Also, by contract terms and conditions, some non-profit organizations may be subject to the CASB's Standards and the Disclosure Statement (DS-1) requirements.

The cost principles articulated in the three OMB cost principles circulars are in most cases substantially identical, but a few differences do exist. These differences are necessary because of the nature of the Federal/State/local/non-profit organizational structures, programs administered, and breadth of services offered by some grantees and not others. Exhibit 1 of this part of the Supplement, Selected Items of Cost, lists the treatment of the selected cost items in the different circulars.

**Note: This FACCR is designed for State and Local Governments. If you are performing a Single Audit for an Higher Educational Institution or a Non-Profit Organization, you will need to update the guidance contained within this FACCR in accordance with the applicable cost principle circular.**

**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 225's allowable cost guidelines. These two criteria are roughly analogous to classifying a cost by both program/function and object. That is, the grant award generally prescribes the allowable program/function while 2 CFR 225 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 2 CFR 225 to determine if pension costs (an object cost classification) are permissible. (2 CFR 225, Appendix B states they are allowable, with restrictions, so we would need to determine if the auditee met the restrictions.) Both the client and we should look at 2 CFR 225 even if the grant agreement includes a budget by object code approved by the grantor agency.

### **OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (2 CFR 225)**

#### **Introduction**

OMB 2 CFR 225 (2 CFR 225) establishes principles and standards for determining allowable direct and indirect for Federal awards. This section is organized in to the following areas of allowable costs: State/Local-Wide Central Service Costs; State/Local Department or Agency Costs (Direct and Indirect); and State Public Assistance Agency Costs.

#### **Cognizant Agency**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

2 CFR 225, Appendix A, paragraph B.6. defines “cognizant agency” as the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR 225 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies (Federal Register, 51 FR 552, January 6, 1986). References to cognizant agency in this section should not be confused with the cognizant Federal agency for audit responsibilities, which is defined in OMB Circular A-133, Subpart D, §\_\_\_\_.400(a).

### **Availability of Other Information**

Additional information on cost allocation plans and indirect cost rates is found in the Department of Health and Human Services (HHS) publications: *A Guide for State, Local, and Indian Tribal Governments (ASMB C-10)*; *Review Guide for State and Local Governments, State/Local-Wide Central Service Cost Allocation Plans, and Indirect Cost Rates*; and the *DCA Best Practices Manual for Reviewing Public Assistance Cost Allocation Plans* which are available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf> and <http://rates.psc.gov/fms/dca/PA%20BPM.pdf>, respectively.

This FACCR section will discuss the Allowable Costs/Cost Principles compliance requirements in four broad categories as follows: (1) allowability of costs, (2) direct and indirect department or agency costs including indirect cost rate proposals (ICRPs), and (3) entity-wide cost allocation (CAPs).

### **Allowability of Costs – General Criteria (applicable to both direct and indirect costs)**

The general criteria affecting allowability of costs under Federal awards are:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of Federal awards.
- *Allocable* – Costs must be allocable to the Federal awards under the provisions of the cost principles or GASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such objective in accordance with relative benefits received.
- *Consistency* – Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purposes in like circumstances was allocated to the Federal award as an indirect cost.
- *Conformity to Laws, Regulations, and Sponsored Agreements* – Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements, or other governing regulations as to types or amounts of cost items.
- *Transactions that Reduce or Offset Direct or Indirect Costs* – Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- *Costs Documentation* – Costs must be documented in accordance with 45 CFR 74 for non-profit organizations and institutions of higher education or the 45 CFR 92 for State, local and Indian tribal governments.

1) *Basic Guidelines* – To be allowable under Federal awards, costs must meet the following general criteria (2 CFR 225, Appendix A, paragraph C.1):

- a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to 2 CFR 225, Appendix A, paragraph C.2 for additional information on reasonableness of costs.)
- b) Be allocable to Federal awards under the provisions of 2 CFR 225. (Refer to 2 CFR 225, Appendix A, paragraph C.3 for additional information on allocable costs.)
- c) Be authorized or not prohibited under State or local laws or regulations.
- d) Conform to any limitations or exclusions set forth in 2 CFR 225, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

- cost.
- g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in 2 CFR 225.<sup>3</sup>
  - h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
  - i) Be net of all applicable credits. (Refer to 2 CFR 225, Appendix A, paragraph C.4 for additional information on applicable credits.)
  - j) Be adequately documented.

### 2) *Selected Items of Cost*

- a) Sections 1 through 43 of 2 CFR 225, Appendix B, provide the principles to be applied in establishing the allowability or unallowability of certain items of cost. (For a listing of costs, refer to Exhibit 1 of this part of the Supplement.) These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this section of 2 CFR 225 is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.
- b) A cost is allowable for Federal reimbursement only to extent of benefits received by Federal awards and its conformance with the general policies and principles stated in 2 CFR 225, Appendix A.

## Allowable Costs – State/Local Department or Agency Costs – Direct and Indirect

The individual State/local departments or agencies (also known as operating agencies) are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with 2 CFR 225.

While direct costs are those that can be identified specifically with a particular final cost objective, the indirect costs are those that have been incurred for common or joint purposes, and not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate.

The indirect cost rate proposal (ICRP) provides the documentation prepared by a State/local department or agency, to substantiate its request for the establishment of an indirect cost rate. The indirect costs include: (1) costs originating in the department or agency carrying out Federal awards, and (2) costs of central governmental services distributed through the State/local-wide central service CAP that are not otherwise treated as direct costs. The IRCs 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 225, Appendix E, paragraph B).

- a. *Direct Costs* – Direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to Federal awards are (2 CFR 225, Appendix A, paragraph E):
- (1) Compensation of employees for the time devoted and identified specifically to the performance of those awards.
  - (2) Cost of material acquired, consumed, or expended specifically for the purpose of those awards.
  - (3) Equipment and other approved capital expenditures.
  - (4) Travel expenses incurred specifically to carry out the award.

b. *Allocation of Indirect Costs and Determination of Indirect Cost Rates* (2 CFR 225, Appendix E)

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. Three different types of indirect cost rates can be approved by the cognizant agency for indirect cost negotiation: predetermined fixed, fixed, and provisional/final.

<sup>3</sup> 2 CFR 225 only requires GAAP to be used for the determination of certain items of cost. If the entity does not charge those items of costs, GAAP is not required by 2 CFR 225, but may be required by the terms of the federal awards. For example, GAAP is required when accruing costs cost employees' paid leave or when charging rental costs for lease that meet the definition of capital lease under GAAP. When uncertain about a particular item of costs, review 2 CFR 225, Appendix B. (2 CFR 225, paragraph B.9; Appendix B, sections 11.d, e, f, and g, and 38.d).

## B. Allowable Costs / Cost Principles

- *Predetermined rates* – rates established for the current or multiple future period(s) based on current data (usually data from the most recently ended fiscal year, known as the base period). Predetermined rates are not subject to adjustment, except under very unusual circumstances.
- *Fixed rates* – rates based on current data in the same manner as predetermined rates, except that the difference between the costs of the base period used to establish the rate and the actual costs of the current period is carried forward as an adjustment to the rate computation for a subsequent period.
- *Provisional rates* – temporary rates used for funding and billing indirect costs, pending the establishment of a final rate for a period.

Sometimes award-specific indirect cost rates are negotiated that are different from those set forth in negotiated rate agreements. Terms and conditions in an award specific to indirect cost rates take precedence over indirect cost rates set forth in negotiated agreements.

- (1) Indirect costs are those that have been incurred for a common or joint purposes. These costs benefit more than one cost objective and cannot readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. A cost may not be allocated to a Federal awards as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.
- (2) Indirect costs include: (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.
- (3) Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled “A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government.” A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office.
- (4) Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain State/local-wide central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation to use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.
- (5) *Indirect Cost Rate Proposals* – Indirect costs are viewed as having been generated at the department or agency administering a federal award. Indirect costs generated at the department or agency administering federal awards (including central services indirect costs assigned to the department by way of an entity-wide cost allocation plan (CAP)), are allocated using indirect cost rates supported by indirect cost rate proposals (ICRPs). (2 CFR 225, Appendix E, paragraph A).
  - (a) The ICRP is used to document and approve an indirect cost rate (a percentage) and an indirect cost rate agreement (ICRA). The indirect cost rate is applied to an indirect cost pool to determine the allocation of indirect costs. The indirect cost pool is the accumulated costs that jointly benefit two or more programs or cost objectives within the department/agency. (2 CFR 225, Appendix E, paragraph B).
  - (b) The indirect cost rate is the proportion of indirect costs to a direct cost base for a given base period. The base is the accumulated direct costs that are used to distribute indirect costs. The base used is often the department’s total direct salaries and wages or total direct costs exclusive of distorting or extraordinary

<sup>4</sup> As used in section B of this FACCR, federal “cognizant agency” is as defined in 2 CFR 225, paragraph B.6. This is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals. Reference to “cognizant agency” here should not be confused with cognizant federal agency audit responsibilities, which is defined in OMB Circular A-133, Subpart D, §\_\_\_\_.400(a).

## **B. Allowable Costs / Cost Principles**

expenditures (for example, capital expenditures, subawards, assistance payments to beneficiaries). The indirect cost rate multiplied by the indirect cost base yields the indirect costs are incurred (usually the entity's fiscal year). (2 CFR 225, Appendix E, paragraph B; ASMB C-10, Part 6).

- (c) Costs included in the indirect cost pool are also subject to the Basic Guidelines and Selected Items of Cost requirements discussed under Allowability of Costs above.
- (d) 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. Rates are often used for more than one year. (For rate definitions refer to 2 CFR 225, Appendix E, paragraph B).
- (e) ASMB C-10, Part 6 includes illustrations demonstrating certain indirect cost calculations and documentation requirements.

c. *Allocation of Indirect Costs and Determination of Indirect Cost Rates* -- Four specific methods for allocating indirect costs and computing indirect cost rates are specified in 2 CFR 225, Appendix E. Following is a summary of the two most common methods:

- (1) *Simplified Method* – This method is applicable where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in the circular (2 CFR 225, Appendix E, paragraph C.2).
- (2) *Multiple Allocation Base Method* – This method is applicable where a governmental unit's department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to 2 CFR 225, Appendix E, paragraph C.3.)

### d. Submission Requirements

- (1) Submission requirements are identified in 2 CFR 225, Appendix E, paragraph D.1. All departments or agencies of a governmental unit claiming indirect costs under Federal awards must prepare an ICRP and related documentation to support those costs.
- (2) A State/local department or agency for which a cognizant<sup>4</sup> Federal agency has been assigned by OMB must submit its ICRP to its cognizant agency. Smaller local government departments or agencies which are not required to submit a proposal to the cognizant Federal agency must develop an ICRP in accordance with the requirements of 2 CFR 225, and maintain the proposal and related supporting documentation for audit. Where a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the subrecipient's plan.
- (3) ICRPs must be developed (and, when required, submitted) within 6 months after the close of the governmental unit's fiscal year.

e. *Documentation Requirements* – The documentation requirements for ICRPs are included in 2 CFR 225, Appendix E, paragraphs D.2. The proposal and related documentation must be retained for audit in accordance with the record retention requirements contained in the 45 CFR 92. The following shall be included with each indirect cost proposal:

- (1) The rates proposed, including subsidiary work sheets and other relevant data, cross-references and reconciled to the financial data noted in subsection b. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal of the central service cost if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.
- (2) A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency in a subsequent proposal.
- (3) The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.
- (4) A chart showing the organizations structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that compromise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

f. *Certification Requirements* – The certification requirements for ICRPs are included in 2 CFR 225, Appendix E, paragraph D.3. The ICRP is to be accompanied by a certification in the form prescribed and must state that (a) all costs included in the proposal to establish indirect cost rates are allowable in accordance with 2 CFR 225, (b) all costs

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

included in the proposal are properly allocable to federal awards on the basis of beneficial or causal relationship, (c) the same costs claimed as indirect have not also been claimed as direct costs and, (d) similar types of costs have been accounted for consistently. The proposal and related documentation must be retained for audit in accordance with the record retention requirements contained in 45 CFR 92.

### Allowable Costs – State/Local-Wide Central Service Costs

Most governmental entities provide services, such as accounting, purchasing, computer services, and fringe benefits, to operating agencies on a centralized basis. Since 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-wide central service cost allocation plan (CAP) provides that process. (Refer to 2 CFR 225, Appendix C, State/Local-Wide Central Service Cost Allocation Plans for additional information and specific requirements.)

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

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

Billed central service costs (referred to as Section II costs) are billed to benefiting agencies and/pr programs on an individual fee-for-services 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.

#### a. Submission Requirements (2 CFR 225, Appendix C, paragraph D)

- (1) Each State will submit a State-wide central service CAP to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include (a) a projection of the next year’s allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and (b) a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year immediately preceding the most recently completed year.
- (2) A local government that has been designated as a “major local government” by OMB is required to submit a central service CAP to its cognizant agency annually. OMB periodically lists major local governments in the *Federal Register*.
- (3) All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in 2 CFR 225 and maintain the plan and related supporting documentation for audit. Local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency. If a local government received funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the local government’s plan.
- (4) All central service CAPs will be prepared and, when required, submitted within 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.

#### b. Documentation Requirements (2 CFR 225, Appendix C, paragraph E)

- (1) The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.
- (2) All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in 45 CFR 92.
- (3) All proposed plans must be accompanied by the following:
  - (a) An organization chart sufficiently detailed to show operations including the central service activities of the

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

- State/local government whether or not they are shown as benefiting from central service functions;
- (b) A copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and
  - (c) A certification (see below) that the plan was prepared in accordance with 2 CFR 225, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.
- c. Required Certification – No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using Certificate of Cost Allocation Plan as set forth in 2 CFR 225, Appendix C, paragraph E.4.
- d. Allocated Central Service Costs (Section I Costs) – A carry-forward adjustment is not permitted for a central service activity that was not included in the previously approved plan or for unallowable costs that must be reimbursed immediately (2 CFR 225, Appendix C, paragraph G.3).
- (1) For each allocated central service, the plan must also include the following:
    - (a) A Brief description of the service;
    - (b) An identification of the unit rendering the services and the operating agencies receiving the service;
    - (c) The items of expense included in the cost of the service;
    - (d) The method used to distribute the cost of the service to benefited agencies; and
    - (e) A summary schedule showing the allocation of each service to the specific benefited agencies.
  - (2) Carry-forward adjustments of allocated central service costs are usually negotiated and approved for future fiscal year on a “fixed with carry-forward” basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amount established for a later year. This “carry-forward” procedure applies to all central services whose costs were fixed in the approved plan. However, a carry-forward adjustment is not permitted for central service activities that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.
- e. Billed Central Service Costs (Section II Costs)
- (1) Internal Service Funds
    - (a) For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include:
      - (i) A brief description of each service;
      - (ii) A balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system;
      - (iii) A revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.;
      - (iv) A listing of all non-operating transfers (as defined by GAAP) in to and out of the fund;
      - (v) A description of the procedures (methodology) used to charge the costs of each service to the users, including how billing rates are determined;
      - (vi) A schedule of current rates; and
      - (vii) A schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service as determined under 2 CFR 225, with an explanation of how variances will be handled.
    - (b) Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).
    - (c) Working Capital Reserves – Internal services funds are independent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (2 CFR 225, Appendix C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **B. Allowable Costs / Cost Principles**

### *(2) Self-insurance funds*

- (a) For each self-insurance fund, the plan shall include:
  - (i) The fund balance sheet;
  - (ii) A statement of revenue and expenses including a summary of billings and claims paid by the agency;
  - (ii) A listing of all non-operating transfers into and out of the fund;
  - (iv) The type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.);
  - (v) An explanation of how the level of fund contribution are determine, including a copy of the current actuarial basis; and
  - (vi) A description of the procedures used to charge or allocate fund contributions to benefited activities.
- (b) Reserve levels in excess of claims must be identified and explained for claims:
  - (i) Submitted and adjudicated but not paid;
  - (ii) Submitted but not adjudicated; and
  - (iii) Incurred but not submitted.
- (c) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer (2 CFR 225, Appendix B, paragraph 22).

### *(3) Fringe Benefits*

- (a) For fringe benefit costs, the plan shall include:
  - (i) A listing of fringe benefits provided to covered employees and the overall annual cost of each type of benefit;
  - (ii) Current fringe benefit policies; and
  - (iii) Procedures used to charge or allocated the costs of the benefits to benefited activities.
- (b) In addition, for pension and post-retirement health insurance plans, the following information shall be provided:
  - (i) The governmental unit's funding policies, e.g., legislative bills, trust agreement, or State-mandated contribution rules, if different from actuarially determined rates;
  - (ii) The pension plan's costs accrued for the year;
  - (iii) The amount funded, and date(s) of funding;
  - (iv) A copy of the current actuarial report (including the actuarial assumptions);
  - (v) The plan trustee's report; and
  - (vi) A schedule from the activity showing the value of the interest cost associated with late funding.

- (4) Each billed central service activity must separately account for all revenues (included imputed revenues) generated by the services, expenses incurred to furnish the services, and profit/loss.

- (5) Adjustment of billed central services – Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually. Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (2 CFR 225, Appendix C, paragraph G.4). These adjustments will be made through of one the following adjustment methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment , (b) credits to the amount charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000.

## **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 charges 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.

## B. Allowable Costs / Cost Principles

Appendix D of 2 CFR 225 states that since the federally financed program 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 published in Subpart E of 45 CFR part 95.

Major Federal programs typically administered by State public assistance include: Temporary Assistance for Needy Families (CFDA #93.558), Medicaid (CFDA #93.778), Food Stamps (CFDA #10.561), Child Support Enforcement (CFDA #93.563), Foster Care (CFDA #93.658), Adoption Assistance (CFDA #93.569), and Social Services Block Grant (CFDA #93.667).

### 1) *Submission Requirements*

- a) Unlike most State/local-wide central service CAPs and ICRPs, an annual submission of the public assistance CAP is not required. Once a public assistance CAP is approved, State public assistance agencies are required to promptly submit amendments to the plan if any of the following event occur (45 CFR section 95.509):
  - (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.
  - (2) A material defect is discovered in the cost allocation plan.
  - (3) The State plan for public assistance programs is amended so as to affect the allocation of costs.
  - (4) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.
  - (5) The amendment must be submitted to HHS for review and approval.

2) *Documentation Requirements* – A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan. The public assistance CAP requirements are contain in 45 CFR section 95.507.

3) *Implementation of Approved Public Assistance CAPs* – Since public assistance CAPs are of a narrative nature, the Federal Government needs assurance that the cost allocation plan has been implemented as approved. This is accomplished by funding agencies' reviews, single audits, or audits conducted by the cognizant audit agency (2 CFR 225, Appendix D, paragraph E.1).

## Compliance Requirements - Program Specific Requirements

Sections A & B are most often test together using the same sample. See also Section A.

Per ODJFS, audit costs are an allowable cost for ODJFS programs.

As noted in the Guided Self Assessment (GSA), the most significant administrative costs of the County JFS is compensation. Costs of compensation must be allocated by means of full-time equivalents (FTEs) and the RMS system, as set forth in the state cost allocation plan. The costs of providers should normally be charged directly to the benefiting program. Provider costs, including provider administrative costs, should not be charged to a cost pool as this would likely cause costs to be charged to non-benefiting programs, contrary to the federal cost allocation principles (OMB Circular A-87 / 2 CFR 225). Costs which are readily assignable as direct costs should be charged in that manner and not charged to a cost pool, unless required by the statewide cost allocation plan. Costs, whether charged directly or indirectly, should be charged only to benefiting federal programs. Subrecipients may not be paid any amounts in excess of allowable costs, whether as a fee or any other increment. For example, where a contractor is providing both WIA and TANF program services, each cost should be allocated by the contractor to the appropriate program and charged as direct program costs. On the other hand, where a contractor is providing general administrative services, such as the development of an agency-wide classification system for employees, those costs are not direct program costs. As the costs benefit all programs within the agency, they should be charged to the shared cost pool.

Counties have a cost allocation plan (CAP) for centralized services that includes County JFS Agencies. County JFS pays the County Auditor for their portion of the CAP.

Agencies place administrative expenditures in a pool; for combined agencies it is referred to as the shared cost pool. ODJFS allocates funding from the shared cost pool through FTE statistics and divides the expenditures into program cost pools (IM, SS, CS). Random Moment Sampling (RMS) statistics are used to allocate the expenditures in each of the

## **B. Allowable Costs / Cost Principles**

separate program (IM, SS, CS) cost pools.

Auditors should be alert for the following:

- Expenditures reimbursed as part of the County CAP and being paid directly (could be charged directly to the program or allocated to a cost pool). Many County CAPs include rent therefore the County JFS should not be paying for rent as a direct expense. The County JFS could be paying the County twice for the same expenditure.
- Instances where County JFS offices may show these County CAP expenditures in the CFIS system even when they did not pay them to the County (offset by a negative expenditure in order to balance to the county auditor's records).
- Less than arms length transactions (see example rent issue discussed below).

As noted in the ODJFS GSA, County family services agencies are not authorized under Ohio law to hold title to real property. The agencies routinely rent or lease (for federal grants management purposes, the terms are interchangeable) the facilities necessary for their operation. Rental costs are allowable costs to federal programs under OMB Circular A-87, Attachment B, item 37. However, rates must be reasonable in light of such factors as:

- Rental costs of comparable property, if any;
- Market conditions in the area;
- Alternatives available; and
- The type, life expectancy, condition, and value of the property leased.

If the County JFS rents facilities from the board of county commissioners, they are subject to additional restrictions under 2 CFR 225 (OMB Circular A-87). As the county family services agency and the board of county commissioners are "related parties," a rental transaction between the two is considered a "less-than-arm's-length" transaction. As a result, allowable rental costs are limited to the amount that would be allowed had title to the property vested in the governmental unit; i.e., depreciation, maintenance, taxes and insurance. If the lease amount is tied to a bond schedule for the repayment of the county's indebtedness on the building in question, this amount may be more than the allowable rental costs under 2 CFR 225, and the excessive amount would not be an allowable cost to federal programs.

**ODJFS issued County Monitoring Advisory Bulletin 2008-001 regarding this matter. The Bulletin is included below auditor's reference. See also OAC 5101:9-4-11 Rental Costs and Lease Agreements for the rule governing this requirement. This rule is also referred to in FACCR Section F - Equipment and Real Property Management.**

**OAC 5101:9-1-15** states the expenditure of funds received by grantees of federal funds and their subrecipients must follow cost principles established in 2 C.F.R. part 225 and be in accordance with state and local requirements. Where federal, state, or local requirements differ, the most restrictive shall apply. Part (H) of this section lists selected items of costs where there is more restrictive policy based on Ohio law and/or where policy clarifications have been received. See complete OAC section as follows:

### **OAC 5101:9-1-15 Cost Principles**, Effective Date: January 30, 2009

(A) The expenditure of funds received by grantees of federal funds and their sub-recipients must follow cost principles established in 2 C.F.R. part 225 and be in accordance with state and local requirements. Where federal, state, or local requirements differ, the most restrictive requirement shall apply.

(B) The following terms relate to cost principles used in this rule: (1) "Award" is a grant, cost reimbursement contract, and/or other agreement between the government unit and the federal government. (2) "Cognizant agency" is the federal agency responsible for reviewing, negotiating and approving cost allocation plans or indirect cost proposals developed under 2 C.F.R. part 225 on behalf of all federal agencies. (3) "Cost" is an amount as determined on a cash, accrual, or other basis acceptable to the federal awarding or cognizant agency. It does not include transfers to a general or similar fund. (4) "Cost allocation plan" means a central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. (5) "Governmental unit" means the state, local, or federally recognized Indian tribal government, including any component thereof. Components of governmental units may function independent of the

## **B. Allowable Costs / Cost Principles**

governmental unit in accordance with the term of the award.

(C) The application of cost principles is based on the premise that: (1) State and local governmental units are responsible for the efficient and effective administration of federal awards through the application of sound management practices. (2) The governmental units assume responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award. (3) Each governmental unit has the primary responsibility for employing the form of organization and those management techniques that are necessary to assure proper and efficient administration of federal awards.

(D) Costs may be categorized as follows: (1) Allowable costs. These are costs that have been identified by the state or federal government as approved costs in compliance with the 2 C.F.R. part 225. The county agency may be reimbursed for a portion or for all of these costs. (2) Costs allowable with prior approval. All costs in this category are allowable only if they have been prior-approved by the Ohio department of job and family services (ODJFS) and/or the federal agency providing the funds. The county agency may be reimbursed for a portion or for all of these prior-approved costs. (3) Unallowable costs. These are costs that are non-reimbursable. A cost is unallowable if it is either: (a) Prohibited as allowable by law; or (b) Not allocable to a state or federal program. In this case, a county agency may expend funds for a particular item or activity, but the expenditure must be paid entirely with local funds.

(E) Costs must be allowable, reasonable, and allocable.

(1) A cost is allowable for federal reimbursement only to the extent of benefits received by federal awards and its conformance with the general policies and principles stated in 2 C.F.R. part 225. To be allowable under federal awards, costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient administration of the federal award. (b) Be allocable to federal awards under the provisions of 2 C.F.R. part 225. (c) Be authorized or not prohibited under state or local laws or regulations. (d) Conform to any limitations or exclusions set forth in 2 C.F.R. part 225, federal law, terms and conditions of the federal award, or other governing regulations to types or amounts of the cost items. (e) Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the government unit. (f) Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost. (g) Except as otherwise provided in 2 C.F.R. part 225, be determined in accordance with generally accepted accounting principles. (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or prior period, except as specifically provided by federal law or regulation. (i) Be the net of all applicable credits. (j) Be adequately documented.

(2) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to: (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the federal award. (b) The restraints or requirements are imposed by such factors as sound business practices; arms length bargaining; federal, state, and other laws or regulations; and terms and conditions of the federal award. (c) Market prices for comparable goods or services. (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the federal government. (e) Significant deviations from the established practices of the governmental unit that may unjustifiably increase the federal award's cost.

(3) A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. (a) All activities that benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs. (b) Any cost allocable to a particular federal award or cost objective under the principles provided for in 2 C.F.R. part 225 may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. (c) All costs must be allocated in compliance with the cost structures and methodologies defined in the ODJFS cost allocation plan (CAP). The CAP describes the method used to distribute and report

## B. Allowable Costs / Cost Principles

costs to the various job and family services and workforce development programs Ohio administers and is approved by the federal cognizant agency.

(F) The total cost of a federal award is composed of the allowable direct cost of the program plus its allocable portion of allowable indirect costs, less applicable credits. Applicable credits refer to receipts or expenditure type transactions which offset or reduce expense items. Examples of such receipts or transactions are: purchase discounts, rebates, recoveries or indemnities on losses, and adjustments of overpayments or erroneous charges.

(G) Cost principles for selected items in 2 C.F.R. part 225 are applied in establishing the allowability or unallowability of certain costs. These principles apply whether a cost is treated as direct or indirect. The fact that a particular item of cost is not mentioned in 2 C.F.R. part 225 does not imply that it is either allowable or unallowable. Determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

(H) The following selected items of costs address where there is more restrictive policy based on Ohio law and/or where policy clarifications have been received:

(1) "Advertising and Public Relations" - The costs of promoting the approval of a tax levy is an unallowable advertising and public relations cost. (2) "Automatic Data Processing (ADP)" - The cost of data processing services for grant programs is allowable. This allowability does not supersede the restrictions regarding reimbursement of ADP expenditures in support of a federally approved ODJFS statewide system; e.g. client registry information system-enhanced (CRIS-E). That is, data processing costs that duplicate any statewide system functions cannot be claimed for federal reimbursement and are therefore non-reimbursable costs. In addition, acquisitions that may affect the ODJFS network, regardless of the cost or financial responsibility, must be approved by ODJFS prior to purchase. Approval can be obtained through the technology and service support policy (TSSP) request process as detailed in rule 5101:9-9-17 of the Administrative Code. (3) "Bonding" - Costs of premiums on bonds covering employees who handle grant funds are allowable. Bonds are required as an assurance of faithful performance of duties as set forth in sections 329.01 and 5153.13 of the Revised Code. Each county department of job and family services (CDJFS) director and public children services agency (PCSA) director must post a bond prior to assuming that position. (4) "Self-Insurance Plans" - The cost of self-insurance is allowable if included in the countywide central services cost allocation plan. Only self-insurance plans that are actuarially based are reimbursable. (5) "County Established Workers' Compensation Reserve Funds" - The U.S. department of health and human services deems as allowable county agency contribution to these county reserve funds for self-insurance plans for workers' compensation provided that all conditions of 2 C.F.R. part 225 are met in adhering to the proper and efficient administration of federal awards, including: (a) Reserve funds are not used for purposes other than workers' compensation claims and administrative expenses; (b) Reserve levels are actuarially determined; (c) Reserve levels do not exceed allowable levels for: (i) Claims runoff amounts; and (ii) Costs that would have been incurred had the counties chosen the base rate plan or experience rating plan, or had the counties chosen to use the actual claims paid method for charging federal programs for workers' compensation; (d) Earned interest remains in the reserve fund to help lower contribution rates; (e) Charges are consistent with federal and nonfederal program regulations; and (f) Treatment of charges is consistent, whether charged as direct or indirect costs.

(I) Determination of allowability of cost not specially addressed in this rule or 2 C.F.R. part 225 should be based on the treatment or standards provided for similar or related items of cost.

## County Monitoring Advisory Bulletin 2008-001

### County Monitoring Advisory Bulletin 2008-001 October 24, 2008

**To:** All CDJFS, CSEA, and PCSA Directors  
**From:** Michelle Horn, Deputy Director  
Office of Research, Assessment and Accountability

**Subject:** Claiming Costs of Building Space Under "Less-Than-Arm's Length" Transactions

**Background:** In recent discussions with county family services agencies, it has been apparent that confusion exists as to  
CHIP, CFDA #93.767

34/86

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **B. Allowable Costs / Cost Principles**

the allowable costs for “rent” where the leased building is owned by the board of county commissioners. The purpose of this Advisory Bulletin is to bring to the attention of county agency management the limitations for such costs and to reduce their potential liability.

### **Issue 1 – Allowable Components of Rental Costs:**

The requirements for allocation and allowability of costs to Federal programs by state and local governments are established in OMB Circular A-87, which is codified in Federal regulations at 2 CFR 225. These regulations are available online at:

<http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/05-16649.htm>

Costs incurred for the acquisition of buildings and land, as “capital expenditures,” are unallowable as direct charges, except where approved in advance by the awarding agency. See 2 CFR 225, Appendix B, Section 15 (b) (1). However, rental costs incurred by a county agency are an allowable cost, subject to the limitations of 2 CFR 225, Appendix B, Section 37.

Section 37 (a) states that:

. . . rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

These requirements are also set forth in Ohio Administrative Code Section 5101:9-4-11 (B). Additional limitations are applicable where the rental space is owned by the board of county commissioners. Section 37 (c) of Appendix B provides that where “one party to the lease agreement is able to control or substantially influence the actions of the other,” the transaction is considered a “less-than-arms-length” transaction. This includes circumstances where leases are between divisions of a governmental unit, as in a lease between a county agency and a board of county commissioners.

Where a “less-than-arms-length” transaction is in place, Section 37 (b) and (c) indicates that lease costs are allowable only up to the extent that costs would be allowable if title to the property vested in the county agency. This includes expenses such as depreciation or use allowance, maintenance, taxes, insurance and related interest.

These requirements are also set forth in Ohio Administrative Code Section 5101:9-4-11 (C).

### **Recommendation 1:**

Where a county agency is entering into a lease arrangement, we recommend that you review the arrangement in light of the criteria in 2 CFR 225, Appendix B, Section 37 (c), and Ohio Administrative Code Section 5101:9-4-11 (C), and determine whether you are dealing with a “less-than-arms-length” transaction. If this appears to be the case, you should review the guidelines in Section 37 (b) as to allowable costs under such circumstances, as well as the provisions on depreciation and use allowances (2 CFR 225, Appendix B, Section 11), maintenance (2 CFR 225, Appendix B, Section 25), taxes (2 CFR 225, Appendix B, Section 40), insurance (2 CFR 225, Appendix B, Section 22) and interest on related debt (2 CFR 225, Appendix B, Section 23).

### **Issue 2 – Depreciation and Bond Principle:**

As noted in the discussion under Issue 1, above, the components of allowable rental costs under less-than-arms-length transactions are depreciation or use allowance, maintenance, taxes, insurance and interest on related debt. The depreciation is to be based on the acquisition cost of the assets, excluding the cost of land. Calculation of depreciation is to be on a straight-line basis over the expected useful life of the assets. The expected useful life used should be the same as that used for financial reporting purposes by the county auditor.

In many instances where the board of county commissioners issues bonds for the acquisition of building facilities for a county family services agency, the term of the bonds is less than the expected useful life of the buildings. For example, the bonds issued to fund the building may mature in 20 years, but the estimated useful life of the building is 40 years.

Under such circumstances, assuming a useful life of 40 years, an acquisition cost of \$3,200,000, and no remaining salvage value at the end of the estimated useful life of the building, the annual depreciation would be \$3,200,000/40, or \$80,000 per year. Thus, the allowable rental cost for the agency would be \$80,000, plus the amount of any maintenance,

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **B. Allowable Costs / Cost Principles**

taxes, insurance and related interest.

A problem arises when, as is sometimes the case, the claim for rental costs is based not on the estimated useful life of the building, but on the term of the bonds issued to fund the acquisition. Under the same assumptions, where the agency incorrectly uses the bond term of 20 years, rather than the estimated useful life of 40 years, the miscalculated "depreciation" is  $\$3,200,000/20$ , or  $\$160,000$  a year.

If this circumstance were to be identified in the course of an A-133 Single Audit, there is a risk that the excessive claim to federal programs, or  $\$80,000$ , would be a questioned cost. There is also a risk, if the excessive claim has been made over an extended period of time, that the federal awarding agency would seek recovery of the total excessive claims. For example, under the circumstances discussed, if the excessive claim had been made for a 10 year period, the excessive amounts claimed for the entire period,  $\$800,000$ , might be at risk.

### **Recommendation 2:**

If your agency occupies building facilities owned by the Board of County Commissioners and claims the related cost to federal programs, we recommend that you review the acquisition cost of the building and the appropriate useful life used by the county auditor for financial reporting purposes, and determine whether the correct amount is being claimed to federal programs.

If an excessive amount is being claimed, we recommend you consult with your county auditor and your county prosecuting attorney, as your statutory legal advisor. If they are in agreement with your calculation and this analysis, we recommend that you adjust the claim for the current and subsequent years until the total amount allowable has been claimed for the estimated useful life of the building. The county prosecuting attorney may have additional suggestions as to the potential liability of the county for the excessive claims to that point.

## **In determining how the client ensures compliance, consider the following:**

### **Control Objectives**

To provide reasonable assurance that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.

### **Control Environment**

- Management sets reasonable budgets for Federal and non-Federal programs so that no incentive exists to miscode expenditures.
- Management enforces appropriate penalties for misappropriation or misuse of funds.
- Organization-wide cognizance of need for separate identification of allowable Federal costs.
- Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.

### **Risk Assessment**

- Process for assessing risks resulting from changes to cost accounting systems.
- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a Federal program and not be detected.

### **Control Activities**

- Accountability provided for charges and costs between Federal and non-Federal activities.
- Process in place for timely updating of procedures for changes in activities allowed.
- Computations checked for accuracy.
- Supporting documentation compared to list of allowable and unallowable expenditures.
- Adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause.
- Adequate segregation of duties in review and authorization of costs.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed.

### **Information and Communication**

- Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.
- Establishment of internal and external communication channels on activities allowed.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>B. Allowable Costs / Cost Principles</b>	
<ul style="list-style-type: none"> <li>• Training programs, both formal and informal, provide knowledge and skills necessary to determine activities allowed.</li> <li>• Interaction between management and staff regarding questionable costs.</li> <li>• Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed under Federal awards.</li> </ul> <p><b>Monitoring</b></p> <ul style="list-style-type: none"> <li>• Management reviews supporting documentation of allowable/unallowable activities.</li> <li>• Flow of information from Federal or State agency to appropriate management personnel.</li> <li>• Comparisons made with budget and expectations of allowable costs.</li> </ul> <p>Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.</p>	
<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
<p><b>What control procedures does the County JFS have in place to ensure only allowable costs are charged to the grant?</b></p> <p>See also Section A for additional procedures.</p>	
<b>Suggested Audit Procedures – Compliance (Substantive Tests)</b>	<b>WP Ref.</b>
<b>(see also testing procedures in Section A)</b>	
<b>General</b>	
<p>The following procedures apply to <b>direct</b> charges to Federal awards as well as to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating <b>indirect</b> cost rates used for recovering indirect costs from Federal awards. If the auditor identifies unallowable costs, the auditor should be aware that “directly associated costs” may have been charged. Directly associated costs are costs incurred solely as a result of incurring another costs, 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.</p>	
<ol style="list-style-type: none"> <li>1) Consider the results of the testing of internal control assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. (NOTE: If the local department or agency is not required to submit a CRP or 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.)</li> <li>2) Select a representative number of transactions (Direct, CAPs, and indirect cost pools) and inspect documentation that supports that the charges are in conformance with the following criteria (contained in the “Basic Guidelines” section of 2 CFR 225): <ol style="list-style-type: none"> <li>a) Authorized or not prohibited under state or local laws or regulations</li> <li>b) Approved by the federal awarding agency (including pass-through agency), if required.</li> <li>c) Conform with the allowability of costs provisions of OMB cost principles 2 CFR 225, or limitations in the program agreement or regulations.</li> <li>d) Conform with the allocability provisions of 2 CFR 225 (paragraph C3).</li> <li>e) Represent charges for actual costs, not budgeted or projected amounts.</li> <li>f) With respect to fringe benefit allocations, charges, or rates; such allocations, charges, or rates are based on the benefits received by different classes of employees with the organization.</li> </ol> </li> </ol>	

<sup>5</sup> When an employee’s compensation is allocated to several cost objectives based on the time spent on each, the portion related to serving the federal program is a direct cost not an indirect cost. Additionally, these costs must be supported by appropriate time and effort records as required by 2 CFR 225, Appendix B, paragraph 8.h. An employee whose compensation is allocated solely to a single cost objective must furnish semi-annual certificates that he/she has been engaged solely in activities in support of that cost objective. Alternatively, payroll codings, time and attendance certifications, and the authority structure must otherwise demonstrate the employee served only that cost objective (2 CFR 225, Appendix B, paragraph 8.h.3, ASMB C-10, Part 3, section 3,4 (Q & A 3-19)).

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>B. Allowable Costs / Cost Principles</b>	
<p>g) Applied uniformly to federal and non-federal activities.</p> <p>h) Given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives.</p> <p>i) Calculated in conformity with generally accepted accounting principles or another comprehensive basis of accounting, when required under the cost principles of 2 CFR 225. Costs for post-employment benefits must be funded to be allowable.</p> <p>j) Not included as a cost or used to meet cost sharing requirements of other federally-supported activities of the current or prior period.</p> <p>k) Net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rental income, trade-ins, and scrap sales.</p> <p>l) Not included as both a direct billing and as a component of indirect costs, i.e., excluded from cost pools included in CAPs and/or ICRPs, if charged directly to federal awards.</p> <p>m) Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages, and time and effort distribution are described in 2 CFR 225.<sup>5</sup> Documentation may be in an electronic form.</p> <p>3) For items selected for testing in 1) above, determine whether the costs met the allowability principles for selected items of costs as established in 2 CFR 225, Appendix B, sections 1 through 43. (For a listing of costs, refer to the chart at the end of this FACCR section.) These principles apply whether a cost is treated as direct or indirect. (Failure to mention a particular item of cost in this section of 2 CFR 225 is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.)</p> <p>4) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are incurred solely as a result of incurring another cost, and would not have 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.</p>	
<p><b>5) State/Local Department or Agency Costs – For State/Local Department or Agency ICRPs</b></p> <p>a. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. If the local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.</p> <p>b. <i>General Audit Procedures (Direct and Indirect Costs)</i> - The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs from Federal awards.</p> <p>(1) Test a sample of transactions for conformance with:</p> <p>(a) The criteria contained in the “Basic Guidelines” section of 2 CFR 225, Appendix A, paragraph C.</p> <p>(b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 225, Appendix B).</p> <p>(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</p>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.

### c. *Special Audit Procedures for State/Local Department or Agency ICRPs*

- (1) Verify that the ICRP includes required documentation in accordance with 2 CFR 225, Appendix E, paragraph D. This step also includes tracing/reconciling selected data elements to underlying accounting or other official records and considering whether all required data has been included (for example, are the organizational chart and function statements reasonably complete). The ICRP must also include:
  - (1) A chart showing the organizational structure and functional statements of unit duties.
  - (2) Amount of direct cost base broken out by salaries and wages and other direct costs.
  - (3) The rates proposed including supporting worksheets and other relevant data reconciled to the financial statements. A copy of the financial data upon which the rate is based must also be included in the ICRP.
- (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 charges 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 225). 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.
  - (a) When the ICRA is the basis for indirect cost charges to a major program, the auditor is required to obtain appropriate assurance that the costs collected in the cost pools and allocation methods are in compliance with the applicable cost principles. The following procedures are some acceptable options the auditor may use to obtain this assurance:
    - (i) *Indirect Cost Pool* – Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with 2 CFR 225.
      - (A) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).
      - (B) Identify significant changes in expense categories between the prior ICRP and the current ICRP. Test a representative number of transactions to verify the allowability of the costs.
      - (C) Trace the central services costs that are included in the indirect cost pool to the approved State/local-wide central service CAP or to plans on file when submission is not required.
    - (ii) *Direct Cost Base* – Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of 2 CFR 225 and produce an equitable distribution of costs.
      - (A) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.
      - (B) If the direct cost base is not limited to direct salaries and wages, determine that distorting items are excluded from the base. Examples of distorting items include capital expenditures, flow-through funds (such as benefit payments), and subaward costs in excess of \$25,000 per subaward.
      - (C) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).
    - (iii) *Other Procedures*
      - (A) Examine the employee time report system results (where and if used) to ascertain if they are accurate, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charges. (Refer to 2 CFR 225, Appendix B, paragraph 11.h for additional information on support of salaries and wages.)
      - (B) For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the

**B. Allowable Costs / Cost Principles**

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 representative number 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 the current-year direct costs do not include cost items that were treated as indirect costs in the base year).
  
- (4) *Other Procedures – No Negotiated ICRA*
  - (a) If an indirect cost rate has not been negotiated by a cognizant Federal agency, as required, the auditor should determine whether documentation exists to support the costs. Where the auditee has documentation, the suggested general audit procedures (direct and indirect costs under paragraph 4.b of this section) should be performed to determine the appropriateness of the indirect cost charges to awards.
  - (b) If an indirect cost rate has not been negotiated by a cognizant agency, as required, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.

**6) State/Local-Wide Central Service Costs**

The following procedures apply to material costs allocated/billed under entity-wide CAPs. The procedures apply to Section I (allocated) and Section II (billed – whether charged as direct or indirect costs of the billed department) costs as indicated. Material amounts charged to federal awards arising from internal service funds, self insurance, central services, or similar central services (whether or not accounted for in a separate fund (ASMB C-10, Part 4, Section 4.8 (Q&A 4-6)) are subject to these procedures.

- a. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.
  - (1) In reviewing the State/local-wide central service costs, the auditor may not need to test all central service costs (allocated or billed) every year; for example, the auditor in obtaining sufficient evidence for the opinion may consider testing each central service at least every 5 years, and perform additional testing for central services with operating budgets of \$5 million or more.
  - (2) If the local governmental entity is not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.
  
- b. *General Audit Procedures for State/Local-Wide Central Service CAPs* - The following

<sup>6</sup> Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of user), a schedule showing the full imputed revenue associated with these users shall be provided. (2 CFR 225, Appendix C, paragraph E.3.b(2)).

<sup>7</sup> There are separate requirements for CAPs which allocate/billed centralized fringe benefits. However, such centralized benefits are not generally expected to be material for local governments in Ohio. See 2 CFR 225, Appendix C, paragraph E.3.d if such costs are material.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.

- (1) Test a sample of transactions for conformance with:
  - (a) The criteria contained in the "Basic Guidelines" section of 2 CFR 225, Appendix A, paragraph C.
  - (b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 225, Appendix B).
- (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.

### c. *Special Audit Procedures for State/Local-Wide Central Service CAPs*

- (1) Verify that the central service CAP includes the required documentation in accordance with 2 CFR 225, Appendix C, paragraph E.
  - (a) All CAPS must include (2 CFR 225, Appendix C, paragraph E.1):
    - (i) An organizational chart sufficiently detailed to show all operations of the entity, including the central services of the entity.
    - (ii) A copy of the financial statements to support the allowable costs of each central service activity included in the plan.
    - (iii) A certification that the plan was prepared in accordance with 2 CFR 225; contains only allowable costs; and was prepared in a manner that treated similar costs consistently.
  - (b) For Section I costs (allocated central service costs) the CAP must also (2 CFR 225, Appendix C, paragraph E.2):
    - (i) Briefly describe the central service.
    - (ii) Identify the unit rendering the service and the operating agencies receiving service.
    - (iii) List the items of expense included in the cost of services.
    - (iv) Identify the method used to distribute the costs of the service to benefited agencies.
    - (v) Provide a summary schedule showing the allocation of each service to benefited agencies.
    - (vi) If central self-insurance or fringe benefits are allocated, the Section II requirements in steps (iii) and (iv) also apply.
  - (c) For Section II costs (billed central service costs) related to **self-insurance** the CAP **must** also include (2 CFR 225, Appendix C, paragraph E.3):
    - (i) A description of the types of risks covered.
    - (ii) A balance sheet for the fund/activity based on individual accounts contained in the governmental entity's accounting system.
    - (iii) A revenue/expense statement including a summary of billings and claims paid by department/agency.
    - (iv) A list of all non-operating transfers into and out of the fund/activity.
    - (v) An explanation of how the level of fund contributions are determined (including a copy of the current actuarial report with actuarial assumptions, if the contributions are determined on an actuarial basis).
    - (vi) A description of the procedures used to charge or allocate contributions (i.e., user charges) to benefited activities.
    - (vii) A schedule comparing total revenues (including imputed revenues)<sup>6</sup> generated by the service to the allowable costs of the service under 2 CFR 225.
    - (viii) Reserve levels in excess of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not submitted, must be

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## B. Allowable Costs / Cost Principles

identified and explained. (See ASMB C-10, Part 4, Sections 4.7 and 4.8 (Q&A 4-7), and related illustrations for more details regarding the financial data.)

- (d) For Section II costs (billed central service costs) related to **other internal service funds and similar activities** (activities other than self-insurance and fringe benefits<sup>7</sup>), the CAP **must** also contain (2 CFR 225, Appendix C, paragraphs E.3 and G.1, and ASMB C-10, Part 4, sections 4.7 and 4.8 (Q&A 4-7)):
- (i) A brief description of each service.
  - (ii) A balance sheet for each fund/activity based on individual accounts contained in the governmental unit's accounting system.
  - (iii) A revenue/expense statement with revenues broken out by source and expenses by object category (e.g., salaries, supplies, etc.).
  - (iv) A list of all non-operating transfers into and out of the fund/activity.
  - (v) A description of the methodology used to charge the cost of each service to users, including how billing rates are determined.
  - (vi) A schedule of current rates
  - (vii) A schedule comparing total revenues (including imputed revenues)<sup>5</sup> generated by the service to the allowable costs of the service under 2 CFR 225, with an explanation of how variances will be handled.

(See ASMB C-10, Part 4, Sections 4.7 and 4.8 (Q&A 4-7), and related illustrations for more details regarding the financial data.)

- (2) *Testing of the State/Local-Wide Central Service CAPs – Allocated Section I Costs*
- (a) If new allocated central service costs were added, review the justification for including the item as Section I costs to ascertain if the costs are allowable (e.g., if costs benefit Federal awards).
  - (b) Identify the central service costs that incurred a significant increase in actual costs from the prior year's costs. Test a representative number of transactions to verify the allowability of the costs.
  - (c) Determine whether the bases used to allocate costs are appropriate, i.e., costs are allocated in accordance with relative benefits received.
  - (d) Determine whether the proposed bases include all activities that benefit from the central service costs being allocated, including all users that receive the services. For example, the State-wide central service CAP should allocate costs to all benefiting State departments and agencies, and, where appropriate, non-State organizations, such as local government agencies.
  - (e) Perform an analysis of the allocation bases by selecting departments/agencies with significant Federal awards to determine the percentage of costs allocated to these departments/agencies has increased from the prior year (or for first time audits, manage larger awards). For those selected departments/agencies with significant allocation percentage increases, determine that the data included in the basis are current and accurate (e.g., trace selected base data to subsidiary records).
  - (f) Where the "fixed-with-carry-forward" basis is used, determine whether carry-forward adjustments are properly computed in accordance with 2 CFR 225, Appendix C, paragraph G.3. This step includes determining whether significant carry-forward adjustments should have been made, and for recorded adjustments, whether the amounts are appropriate.
  - (g) When self-insurance costs are allocated, also perform suggested audit procedure steps 3(e) and (f) below.
- (3) *Testing of the State/Local-Wide Central Service CAPs – Billed Section II Costs*
- (a) For billed central service activities accounted for in separate funds (e.g., internal service funds), ascertain if:
    - (i) Retained earnings/fund balances (including reserves) are computed in accordance with the applicable cost principles;
    - (ii) Working capital reserves are not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**B. Allowable Costs / Cost Principles**

of depreciation, capital costs, and debt principal costs); and  
(iii) Adjustments were made when there is a difference between the revenue generated by each billed service and the actual allowable costs.

Note: A 60-day working capital reserve is not automatic. Refer to the HHS publication, *A Guide for State, Local, and Indian Tribal Governments* (ASMB C-10) for guidelines.

- (b) Test to ensure that all users of services are billed in a consistent manner. For example, examine selected billings to determine if all users (including users outside the governmental unit) are charged the same rate for the same service.
- (c) Test that billing rates exclude unallowable costs, in accordance with applicable cost principles and Federal statutes.
- (d) Test, where billed central service activities are funded through general revenue appropriations, that the billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.
- (e) For self-insurance and pension funds, ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study that is not over two years old.
- (f) Determine if refunds were made to the Federal Government for its share of funds transferred from the self-insurance reserve to other accounts, including imputed or earned interest from the date of the transfer.

**7) State Public Assistance Agency Costs**

- a) Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance
- b) Since a significant amount of costs in the public assistance CAP are allocated based on employee time reporting systems (e.g., effort certification, personnel activity report and/or random moment sampling), it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.
- c) *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 Guidelines" section of 2 CFR 225, Appendix A, paragraph C.
    - (b) The principles to establish allowability or unallowability of certain items of cost (2 CFR 225, Appendix B).
  - (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.
- d) *Special Audit Procedures for Public Assistance CAPs*
  - (1) Verify that the State public assistance 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 occur.
  - (2) Verify that public assistance CAP includes the required documentation in accordance with 45 CFR section 95.507.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**B. Allowable Costs / Cost Principles**

- (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) Examine the results of the employee time reporting systems to ascertain if they are accurate, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.
  - (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, determine whether the time studies are implemented and operated in accordance with the methodologies described in the approved public assistance CAP. For example, verify the adequacy of the controls governing the conduct and evaluation of the study, determine that the sampled observations were properly selected and performed, the documentation of the observations was properly completed, and that 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) Test 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 determine to be in compliance with the applicable 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) Verify 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) Reconcile the allocation statistics of labor costs to completed employee time reporting documents (e.g., personnel activity reports or random moment sampling observation forms).
  - (c) Reconcile the allocation statistics of non-labor costs to allocation data, (e.g., square footage or case counts).
  - (d) Verify direct charges to supporting documents (e.g., purchase orders).
  - (e) Reconcile the costs to the Federal claims.

**Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)**

- A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)**
- B. Assessment of Control Risk:**
- C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**
- D. Results of Compliance (Substantive Tests) Tests:**
- E. Questioned Costs: Actual \_\_\_\_\_ Projected \_\_\_\_\_**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## ICRP (Testing of the Program)

The ICRP is based upon costs charged to cost pools representing costs of a base year. The base year often precedes the year in which the ICRP is prepared and the year the resulting Indirect Cost Rate Agreement (IDCRA) is used to charge indirect costs. For example, a non-federal entity may submit an ICRP in January 2009, based upon costs incurred and charged to cost pools during fiscal year ending June 30, 2008 (2008), the base year. The resulting IDCRA negotiated during year ending June 30, 2009 (2009) would be used as the basis for charging indirect costs to federal awards in the year ended June 30, 2010 (2010). For this example, the term IDCRA will also include an ICRP which is not required to be submitted to the federal agency for indirect cost negotiation but is retained on file is first used to charge indirect costs to federal awards the same as an approved plan resulting in an IDCRA.

An audit timing consideration is that the audit for 2008 (which covers the applicable cost pools) may be completed before the ICRP is submitted. Therefore, as part of the audit, the auditor cannot complete testing of the ICRP. Also, if the auditor waits to test the ICRP until 2010 (the year when this ICRP is first used to charge federal awards), the auditor would be testing 2008 records which would then be two years old.

Continuing this example, when the IDCRA is the basis of material charges to a major program in 2010, the auditor for 2010 is require to obtain appropriate assurance that the costs collected in the cost pools and allocation methods are in compliance with 2 CFR 225 cost principles. The following are some acceptable options the auditor may use to obtain this assurance.

- Perform interim testing of the costs charged to cost pools (e.g., determine from management the cost pools that management expects to include the ICRP and test the costs charged to those pools for compliance with the cost principles of 2 CFR 225 during the 2008 audit. As part of the 2009 audit, complete testing and verify management's representation against the ICRP finally submitted in 2009.
- Test costs charged to the cost pools underlying the ICRP during the audit of 2009, the year immediately following the base year. This would require testing of 2008 transactions.
- Wait until 2010, the year in which charges from the IDCRA are material to a major program and test costs charged to cost pools (2008) used to prepare the ICRP. This is a much more difficult approach because it requires going back two years to audit the cost charged to cost pools of the base year.

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

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

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

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

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

**LIST OF SELECTED ITEMS OF COST CONTAINED IN 2 CFR 225 (formerly OMB Circular A-87)  
(Effective August 31, 2005)**

The following exhibit provides an updated listing of selected items of costs contained in 2 CFR 225 based on the changes contained in the *Federal Register* notice dated August 31, 2005. This is available at the following link:

[http://www.whitehouse.gov/omb/fedreg/2005/083105\\_a87.pdf](http://www.whitehouse.gov/omb/fedreg/2005/083105_a87.pdf).

This exhibit lists the selected items of costs along with a cursory description of its allowability. The numbers in parentheses refer to the cost item in Appendix B of 2 CFR 225. The reader is strongly cautioned not to rely exclusively on this summary exhibit but to place primary reliance on the reference circular text. There are also cost items listed auditors may identify in the testing that are not specifically addressed in the CFR.

<b>Selected Items of Cost Exhibit 1</b>	
Selected Cost Item	2 CFR 225, Appendix B State, Local, & Indian Tribal Governments
Advertising and public relation costs	(1) – Allowable with restrictions
Advisory councils	(2) – Allowable with restrictions
Alcoholic beverages	(3) – Unallowable
Alumni/ae activities	Not specifically addressed
Audit costs and related services	(4) – Allowable with restrictions <b>and</b> as addressed in OMB Circular A-133
Bad debts	(5) – Unallowable
Bonding costs	(6) – Allowable with restrictions
Commencement and convocation costs	Not specifically addressed
Communication costs	(7) – Allowable
Compensation for personal services	(8) – Unique criteria for support
Compensation for personal services – organization furnished automobile	Not specifically addressed
Compensation for personal services - sabbatical leave costs	Not specifically addressed
Compensation for personal services - severance pay	(8)(g) - Allowable with restrictions
Contingency provisions	(9) – Unallowable with exceptions
Deans of faculty and graduate schools	Not specifically addressed
Defense and prosecution of criminal and civil proceedings	(10) – Allowable with restrictions
Depreciation and use allowances	(11) – Allowable with qualifications
Donations and contributions	(12) – Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)
Employee morale, health, and welfare costs	(13) – Allowable with restrictions
Entertainment costs	(14) – Unallowable
Equipment and other capital expenditures	(15) – Allowability based on specific requirements
Fines and penalties	(16) – Unallowable with exceptions
Fundraising and investment management costs	(17) – Unallowable with restrictions
Gains and losses depreciable assets	(18) – Allowable with restrictions (Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs)
General government expenses	(19) – Unallowable with exceptions
Goods or services for personal use	(20) – Unallowable
Housing and personal living expenses	Not specifically addressed
Idle facilities and idle capacity	(21) – Idle facilities - unallowable with exceptions; idle capacity - allowable with restrictions
Insurance and indemnification	(22) – Allowable with restrictions
Interest	(23) – Allowable with restrictions
Interest - substantial relocation	Not specifically addressed

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

Labor Relations Costs	Not specifically addressed
Lobbying	(24)-Unallowable
Lobbying - executive lobbying costs	(24.b.) – Unallowable
Losses on other sponsored agreements or contracts	Not specifically addressed ( <i>Unallowable</i> )
Maintenance, operations and repairs	(25) – Allowable with restrictions (Maintenance, operations, and repairs)
Materials and supplies costs	(26) – Allowable with restrictions
Meetings and conferences	(27) – Allowable with restrictions
Memberships, subscriptions, and professional activity costs	(28) – Allowable as a direct cost for civic, community and social organizations with Federal approval; unallowable for lobbying organizations
Organizational costs	Not specifically addressed
Page charges in professional journals	(34.b)-Allowable with restrictions (addressed under “Publication and printing costs”)
Participant support costs	Not specifically addressed
Patent costs	(29) – Allowable with restrictions
Pension plans	(8e) – Allowable with restrictions
Plant and homeland security costs	(30) – Allowable with restrictions
Pre-award costs	(31) – Allowable with restrictions (Pre-award costs)
Professional services costs	(32) – Allowable with restrictions
Proposal costs	(33) – Allowable with restrictions
Publication and printing costs	(34) – Allowable with restrictions
Rearrangement and alteration costs	(35) – Allowable (ordinary and normal); Allowable with Federal prior approval (special)
Reconversion costs	(36) – Allowable with restrictions
Recruiting costs	(1.c.(1)) – Allowable with restrictions (addresses costs of advertising only)
Relocation costs	Not specifically addressed
Rental cost of buildings and equipment	(37) – Allowable with restrictions
Royalties and other costs for use of patents	(38) – Allowable with restrictions
Scholarship and student aid costs	Not specifically addressed
Selling and marketing costs	(39) – Unallowable with exceptions
Specialized service facilities	Not specifically addressed
Student activity costs	Not specifically addressed
Taxes	(40) – Allowable with restrictions
Termination costs applicable to sponsored agreements	(41) – Allowable with restrictions
Training costs	(42) – Allowable for employee development
Transportation costs	Not specifically addressed
Travel costs	(43) – Allowable with restrictions
Trustees	Not specifically addressed

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## C. Cash Management

### Audit Objectives

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether the recipient/subrecipient followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and their disbursement.
- 3) Determine whether the pass-through entity implemented procedures to assure that subrecipients conformed substantially to the same timing requirements that apply to the pass-through entity.
- 4) Determine whether interest earned on advances was reported/remitted as required.

### Compliance Requirements – General

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipient must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Interest earned on advances by local government grantee and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State not-for-profit entities on Federal fund balances in excess of \$250 is required to be remitted to the Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury is Subpart B of 31 CFR part 205 (Subpart B).

### Compliance Requirements - Specific Program Requirements

Subgrant Agreement, Article V. Amount of Grant/Payments, Section B indicates the "SUBGRANTEE will limit cash draws from ODJFS to the minimum amount needed for actual, immediate requirements in accordance with Cash Management Improvement Act, 31 CFR Part 205, 45 CFR Parts 74 and 92, 7 CFR Part 3016, Transmittal No. TANF-ACF-PI-01-02 issued by the United States Department of Health and Human Services, and ODJFS requirements including Chapter 7 of the Fiscal Administrative Procedures Manual." The Fiscal Administrative Procedures Manual is available at [http://emanuals.odjfs.state.oh.us/emanuals/GetTocDescendants.do?nodeId=%23node-id\(419\)&maxChildrenInLevel=100&version=8.0.0](http://emanuals.odjfs.state.oh.us/emanuals/GetTocDescendants.do?nodeId=%23node-id(419)&maxChildrenInLevel=100&version=8.0.0).

The requirements for cash management for the Department of Health and Human Services are contained in **45 CFR 92.20**, as follows:

**Cash management.** Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**C. Cash Management**

**See also Section L (Reporting). Funding is based on expenditures but is not on a reimbursement basis.**

**OAC 5101:9-7-03 Public assistance (PA) financing and cash management** is the State rule for cash management. The previous rule was split into three (5101:9-7-03, 5101:9-7-03.1 & 5101:9-7-03.2) effective 9/12/09 and are available at <http://codes.ohio.gov/oac/5101%3A9-7-03>.

**In determining how the client ensures compliance, consider the following:**

**Control Objectives**

To provide reasonable assurance that the drawdown Federal cash is only for immediate needs and recipients limit payments to subrecipients to immediate cash needs.

**Control Environment**

- Appropriate assignment of responsibility for approval of cash drawdowns and payments to subrecipients.
- Budgets for drawdowns are consistent with realistic cash needs.

**Risk Assessment**

- Mechanisms exist to anticipate, identify, and react to routine events that affect cash needs.
- Routine assessment of adequacy of subrecipient cash needs.
- Management has identified programs that receive cash advances and is aware of cash management requirements.

**Control Activities**

- Cash flow statements by program are prepared to determine essential cash flow needs.
- Accounting system is capable of scheduling payments for accounts payable and requests for funds from Treasury to avoid time lapse between drawdown of funds and actual disbursements of funds.
- Appropriate level of supervisory review of cash management activities.
- Written policy that provides:
  - Procedures for requesting cash advances as close as is administratively possible to actual cash outlays;
  - Monitoring of cash management activities;
  - Repayment of excess interest earnings where required.

**Information and Communication**

- Variance reporting of expected versus actual cash disbursements of Federal awards and drawdowns of Federal funds.
- Established channel of communication between pass-through entity and subrecipients regarding cash needs.

**Monitoring**

- Periodic independent evaluation (e.g. by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and Federal drawdown activities.
- Subrecipients' requests for Federal funds are evaluated.

**What control procedures address the compliance requirement?**

**WP Ref.**

What control does the County have to limit cash draws from ODJFS to the minimum amount needed for actual, immediate requirements?

For County subrecipients (subgrantee), what control procedures were established to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable the County to prepare complete and accurate cash transactions reports to the awarding agency?

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

**WP Ref.**

Note: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.

*States and Other Recipients*

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**C. Cash Management**

- 1) For those programs where Federal cash draws are passed through to subrecipients:
  - a) Select a representative number of the subrecipients and ascertain the procedures implemented to assure that subrecipients minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes (45 CFR 92).
  - b) Select a representative number of Federal cash draws by subrecipients and ascertain that they conformed to the procedures.

*Other Recipients and Subrecipients*

- 2) For those programs that received advances of Federal funds, ascertain (and document) the procedures established with the Federal agency or pass-through entity to minimize the time between the transfer of Federal funds and the pay out of funds for program purposes.
- 3) Select a representative number of Federal cash draws and verify that:
  - a) Where a time limit is placed on the period between drawdown and subsequent disbursement, compare the dates the funds were disbursed and/or checks were presented to the banks for payments, to the dates subsequent disbursements were made.
  - b) Where other than a time limit is the established criteria, review accounting records and other documentation and determine whether the established criteria was complied with.
  - c) Established procedures to minimize the time elapsing between drawdown and disbursement were followed.
  - d) To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by 45 CFR 92 and 45 CFR 74.
- 4) Where applicable, select a representative number of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.
- 5) Review records to determine if interest was earned on Federal cash draws. If so, review evidence to ascertain whether it was returned to the appropriate agency.
- 6) Review the government's system for monitoring advances and payment requests by its subrecipients. Evaluate whether the system is sufficient to limit payments to amounts needed to meet immediate cash requirements.

**Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)**

**A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)**

**B. Assessment of Control Risk:**

**C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**

**D. Results of Compliance (Substantive Tests) Tests:**

**E. Questioned Costs: Actual \_\_\_\_\_ Projected \_\_\_\_\_**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>D. Davis-Bacon Act</b>
The OMB Compliance Supplement indicates Section D is not applicable to this program.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>E. Eligibility</b>
Eligibility requirements in the 2009 OMB Compliance Supplement will be tested by the State Region.
Per ODJFS, there are no additional County level CHIP eligibility requirements.

<b>F. Equipment and Real Property Management</b>
The OMB Compliance Supplement indicates Section F is not applicable to this program.

## G. Matching, Level of Effort, Earmarking

### Audit Objectives

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) *Matching* – Determine whether the minimum amount or percentage of contributions or matching funds was provided.
- 3) *Level of Effort* – Determine whether specified service or expenditure levels were maintained.
- 4) *Earmarking* – Determine whether minimum or maximum limits for specified purposes or types of participants were met.

### Compliance Requirements

**The 2009 OMB Compliance requirements are either tested by the State Region or not applicable per ODJFS; however, there are ODJFS matching requirements. County JFS costs of administering the program are part of the state cost allocation plan and mandated share. If the County requests additional Federal funding, they have to show a match is available. See ODJFS requirements below in the Program Specific Requirement section.**

**1. Matching (This requirement will be tested by the State Region.)**

The State matching rate for its CHIP expenditures is determined in accordance with the Federal matching rate for such expenditures, referred to as the enhanced Federal medical assistance percentage (Enhanced FMAP) for a State. That is, the CHIP State matching rate is calculated by subtracting the Medicaid FMAP rate from 100, taking 30 percent of the difference, and then adding it to the Medicaid FMAP rate. The Enhanced FMAP is calculated in accordance with 42 USC 1397ee(b), which provides that the Enhanced FMAP for a State shall never exceed 85 percent. Calculated FMAPs and enhanced FMAPs may be found on the Internet at <http://www.aspe.hhs.gov/health/fmap.htm> (42 USC 1397ee(a) and (b)).

**2.1 Level of Effort - Maintenance of Effort (This requirement will be tested by the State Region.)**

a. In order to receive Federal matching funds for CHIP expenditures at the enhanced matching rate, each State must continue to maintain its Medicaid eligibility standards and the methodologies that were applied in its Medicaid State plans as of June 1, 1997 (42 USC 1397ee(d)(1) and 1397jj(b)).

**2.2 Level of Effort - Supplement Not Supplant - Not Applicable**

**3. Earmarking (This requirement will be tested by the State Region.)**

Expenditures not directly related to providing child health insurance assistance under the plan are limited to 10 percent of the State's total expenditures through CHIP. The following expenditures are subject to the 10 percent limit:

(a) payment for other child health assistance for targeted low-income children; (b) expenditures for health services initiatives under the State child health assistance plan for improving the health of children; (c) expenditures for outreach activities; and (d) other reasonable costs incurred by the State to administer the State child health assistance plan (42 USC 1397ee(c)). States may apply for a waiver, or variance of this 10 percent cap under 42 USC 1397ee(c)(2). If applicable, information regarding such a waiver is in the State plan.

The 10 percent limit is applied on an annual fiscal-year basis and is calculated based on: (a) the total amounts of expenditures and (b) the quarter in which such expenditures are claimed by the State for the fiscal year (42 USC 1397ee).

**(Source: 2009 OMB Compliance Supplement)**

However, for matching, 45 CFR 92 and 45 CFR 74 provide 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.

## **G. Matching, Level of Effort, Earmarking**

- Are not included as contributions for any other federally assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of 45 CFR 92 and 45 CFR 74 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

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.

## **Compliance Requirements – Program Specific Requirements**

**For Medicaid, the Federal Share is 50% so the County JFS would be reimbursed for 50% from the Federal share and 50% from State (IM) or local monies. When the County requests funding, the required match of IM funding is automatically sent with the Federal share (until the IM allocation is exhausted). This IM allocation is programmed into CFIS so auditors are not required to test the IM allocation. The amount of Federal funding is unlimited as long as the County can provide the matching funds.**

**Once the County uses all their IM allocation, they must use local funding for the 50% match. County JFS share of administering the program is included in the County's mandated share amount. If the mandated share is exhausted, the County may use additional allowable local monies to meet the required share.**

*See Introduction, Part II, Program Funding section of this FACCR for the Income Maintenance and Mandated Share OAC rules.*

## **In determining how the client ensures compliance, consider the following:**

### **Control Objectives**

To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

### **Control Environment**

- Commitment from management to meet matching, level of effort, and earmarking requirements (e.g., adequate budget resources to meet a specified matching requirement or maintain a required level of effort).
- Budgeting process addresses/provides adequate resources to meet matching, level of effort, or earmarking goals.
- Official written policy exists outlining:
  - Responsibilities for determining required amounts or limits for matching, level of effort, or earmarking;
  - Methods of valuing matching requirements, e.g., "in-kind" contributions or property and services, calculations of levels of effort;
  - Allowable costs that may be claimed for matching, level of effort, or earmarking;
  - Methods of accounting for and documenting amounts used to calculate amounts claimed for matching, level of effort, or earmarking.

### **Risk Assessment**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>G. Matching, Level of Effort, Earmarking</b>	
<ul style="list-style-type: none"> <li>• Identification of areas where estimated values will be used for matching, level of effort, or earmarking.</li> <li>• Management has sufficient understanding of the accounting system to identify potential recording problems.</li> </ul> <p><b>Control Activities</b></p> <ul style="list-style-type: none"> <li>• Evidence obtained such as a certification from the donor, or other procedures performed to identify whether matching contributions: <ul style="list-style-type: none"> <li>- Are from non-Federal sources;</li> <li>- Involve Federal funding, directly or indirectly;</li> <li>- Were used for another federally-assisted program;</li> <li>- Note: Generally, matching contributions must be from a non-Federal source and may not involve Federal funding or be used for another federally assisted program.</li> </ul> </li> <li>• Adequate review of monthly cost reports and adjusting entries.</li> </ul> <p><b>Information and Communication</b></p> <ul style="list-style-type: none"> <li>• Accounting system capable of: <ul style="list-style-type: none"> <li>- Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations;</li> <li>- Ensuring that expenditures or expenses, refunds, and cash receipts or revenues are properly classified and recorded only once as to their effect on matching, level of effort, or earmarking;</li> <li>- Documenting the value of “in-kind” contributions of property or services, including: <ul style="list-style-type: none"> <li>▪ Basis for local labor market rates for valuing volunteer services;</li> <li>▪ Payroll records or confirmation from other organizations for services provided by their employees;</li> <li>▪ Quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, building, or use of space.</li> </ul> </li> </ul> </li> </ul> <p><b>Monitoring</b></p> <ul style="list-style-type: none"> <li>• Supervisory review of matching, level of effort, or earmarking activities performed to assess the accuracy and allowability of transactions and determinations, e.g., at the time reports on Federal awards are prepared.</li> </ul>	
<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
What procedures do the county have in place to monitor matching requirements?	
<b>Suggested Audit Procedures – Compliance (Substantive Tests)</b>	<b>WP Ref.</b>
<b>1) Matching</b> <ul style="list-style-type: none"> <li>a) Compute the amount of match required and determine whether the amount provided was sufficient to meet the requirements.</li> <li>b) Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.</li> <li>c) Test transactions used to match for compliance with the allowable costs/cost principles requirement.</li> </ul> <b>2) Level of Effort – n/a</b> <b>3) Earmarking – n/a</b>	
<b>Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)</b>	
<b>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</b>	
<b>B. Assessment of Control Risk:</b>	
<b>C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:</b>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**G. Matching, Level of Effort, Earmarking**

**D. Results of Compliance (Substantive Tests) Tests:**

**E. Questioned Costs: Actual \_\_\_\_\_ Projected \_\_\_\_\_**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## H. Period of Availability of Federal Funds

### Audit Objectives

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether Federal funds were obligated within the period of availability, obligations were not incurred either before or after the period of availability unless specifically permitted, and obligations were liquidated within the required time period.

### Compliance Requirements - General

Federal awards may specify a time-period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charges for obligations of the subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (45 CFR 92; 45 CFR 74).

Non-Federal entities subject to 45 CFR 92 shall liquidate all obligation incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline upon request (45 CFR 92).

*Definition of Obligation* - An obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for:

IF AN OBLIGATION IS FOR --	THE OBLIGATION IS MADE --
(a) Acquisition of real or personal property.	On the date on which the State or subgrantee makes a binding written commitment to acquire the property.
(b) Personal services by an employee of the State or subgrantee.	When the services are performed.
(c) Personal services by a contractor who is not an employee of the State or subgrantee.	On the date on which the State or subgrantee makes a binding written commitment to obtain the services.
(d) Performance of work other than personal services.	On the date on which the State or subgrantee makes a binding written commitment to obtain the work.
(e) Public utility services.	When the State or subgrantee receives the services.
(f) Travel.	When the travel is taken.
(g) Rental of real or personal property.	When the State or subgrantee uses the property.
(h) A pre-agreement cost that was properly approved by the State under the applicable cost principles.	On the first day of the subgrant period.

If a grantee or subgrantee uses a different accounting system or accounting principles from one year to the next, it shall demonstrate that the system or principle was not improperly changed to avoid returning funds that were not timely obligated. A grantee or subgrantee may not make accounting adjustments after the period of availability in an attempt to offset audit disallowances. The disallowed costs must be refunded.

### Per the 2009 OMB Compliance Supplement:

The amount of a State's CHIP allotment for a fiscal year remains available for expenditures by that State for a 3-year period, i.e., the fiscal year of award and the two subsequent fiscal years (42 USC 1397dd(e) and (f)). Notwithstanding this general rule, the period of availability for FY 1998 through 2001 CHIP allotments has been modified as follows:

1. The period of availability of a State's FY 1998 and FY 1999 retained and redistributed CHIP allotments is through September 30, 2004 (Pub. L. No. 108-74, section 1(a)(1)).
2. Fifty percent of any unexpended amount of a State's FY 2000 retained CHIP allotment not expended by September 30, 2002 is available for expenditure by the State through September 30, 2004. Any amount made available to a State as a result of redistribution of FY 2000 CHIP allotments is available to the State for expenditure through September 30, 2004 (Pub. L. No. 108-74, sections 1(a)(2)(A)(iii) and 1(a)(2)(B)(v)(II)).
3. Fifty percent any unexpended amount of a State's FY 2001 retained CHIP allotment not expended by

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

#### **H. Period of Availability of Federal Funds**

September 30, 2003 is available for expenditure by the State through September 30, 2005. Any amount made available to a State as a result of redistribution of FY 2001 CHIP allotments is available to the State for expenditure through September 30, 2005 (Pub. L. No. 108-74, sections 1(a)(3)(A)(iv) and 1(a)(3)(B)(v)(III)).

#### **Compliance Requirements – Program Specific Requirements**

**While the CFR requires expenditures to be reported within two years after the expense, ODJFS requires the County JFS to submit all expenditures within seven quarters after the expense is incurred. See following OAC code.**

**Per ODJFS, Federal regulations in CFR 95.13 define incurred as the quarter in which a payment was made even if the payment was for a month in a previous quarter. And for depreciation – the quarter the expenditure was recorded in the accounting records.**

#### **OAC 5101:9-7-03.2 (eff. 9-12-09) states in Section (E):**

(E) Prior period coding adjustments

Except for FSS and “Title XX TANF Transfer” expenditures, which are addressed in paragraph (F) of this rule, 45 C.F.R 95.7 requires expenditures be reported within two years after the expense was incurred. Consistent with those regulations, requests for ODJFS coding adjustments shall be submitted to ODJFS one quarter prior to the end of the two-year period to allow ODJFS time to compile federal reports and to submit for federal reimbursement.

(1) CDJFS shall submit coding adjustments to ODJFS through QUIC+ for upload into CFIS no later than seven quarters after the expense was incurred.

(a) The CDJFS shall determine how the expenditure was originally reported and submit a coding adjustment to the same grant or state allocation, if still within the period of availability.

(b) If the grant or state allocation that the expenditure was charged is no longer available, the CDJFS shall make the coding adjustment against the current year grant or allocation.

(2) Additional federal funding resulting from prior period adjustments shall be available by draw requests or as part of the annual closeout process.

(F) Federal social services (FSS) and “Title XX TANF Transfer” funds shall be expended within one year. Therefore, coding adjustments for Title XX entitlement funds and Title XX transfer funds and the portion of shared costs applicable to Title XX entitlement funds and Title XX transfer funds are limited to a one-year retroactive period.

(1) CDJFS shall submit coding adjustments to ODJFS through QUIC+ for upload into CFIS no later than three quarters after the expense was incurred.

(a) The CDJFS shall determine how the expenditure was originally reported and submit a coding adjustment to the same grant or state allocation, if still within the period of availability.

(b) If the grant or state allocation to which the expenditure was charged is no longer available, the CDJFS shall make the coding adjustment against the current year’s grant or allocation.

(2) Additional federal funding resulting from prior period adjustments shall be available by draw requests or as part of the annual closeout process.

(G) The CDJFS shall retain financial, programmatic, statistical, recipient records, and supporting documents in accordance with the records retention requirements outlined in rule 5101:9-9-21 of the Administrative Code.

**Prior to 9-12-09 these same requirements were part of 5101.9-7-03 section E. ODJFS split the rule 9-12-09 into**

<b>H. Period of Availability of Federal Funds</b>	
<p>three different rules. 5101:9-7-03 Public assistance (PA) financing and cash management; 5101:9-7-03.1 Public assistance (PA) quarterly reconciliation; 5101:9-7-03.2 Public assistance (PA) annual and grant closeout. (eff. 9-12-09)</p> <p><b>Note:</b> ODJFS changed the grant years for many programs from the state fiscal year end (6-30) to the Federal fiscal year end (9-30). Auditors should review grant information to determine period of availability for testing.</p>	
<b>In determining how the client ensures compliance, consider the following:</b>	
<p><b>Control Objectives</b> To provide reasonable assurance that federal funds are used only during the authorized period of availability.</p> <p><b>Control Environment</b></p> <ul style="list-style-type: none"> <li>• Management understands and is committed to complying with period of availability requirements.</li> <li>• Entity's operations are such that it is unlikely there will be Federal funds remaining at the end of the period of availability.</li> </ul> <p><b>Risk Assessment</b></p> <ul style="list-style-type: none"> <li>• The budgetary process considers period of availability of Federal funds as to both obligation and disbursement.</li> <li>• Identification and communication of period of availability cut-off requirements as to both obligation and disbursement.</li> </ul> <p><b>Control Activities</b></p> <ul style="list-style-type: none"> <li>• Accounting system prevents obligation or expenditure of Federal funds outside of the period of availability.</li> <li>• Review of disbursements by person knowledgeable of period of availability of funds.</li> <li>• End of grant period cut-offs are met by such mechanisms as advising program managers of impending cut-off dates and review of expenditures just before and after cut-off date.</li> <li>• Cancellation of unliquidated commitments at the end of the period of availability.</li> </ul> <p><b>Information and Communication</b></p> <ul style="list-style-type: none"> <li>• Timely communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines.</li> <li>• Periodic reporting of unliquidated balances to appropriate levels of management and follow-up.</li> </ul> <p><b>Monitoring</b></p> <ul style="list-style-type: none"> <li>• Periodic review of expenditures before and after cut-off date to ensure compliance with period of availability requirements.</li> <li>• Review by management of reports showing budget and actual for period.</li> <li>•</li> </ul>	
<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
<p>What procedures does the County JFS have in place to report expenditures within two years after the expense incurred?</p> <p>What procedures does the County JFS have in place for coding adjustments submitted to ODJFS one quarter prior to the end of the two-year period?</p>	
<b>Suggested Audit Procedures – Compliance (Substantive Tests)</b>	<b>WP Ref.</b>
<ol style="list-style-type: none"> <li>1) Test a representative number of transactions charged to the Federal award after the end of the period of availability and verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period.</li> <li>2) Test a representative number of transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.</li> <li>3) Select a representative number of adjustments during the audit period to the Federal funds and verify that the adjustments were for transactions that occurred during the period of availability.</li> </ol>	

**H. Period of Availability of Federal Funds**

**Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)**

**A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)**

**B. Assessment of Control Risk:**

**C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**

**D. Results of Compliance (Substantive Tests) Tests:**

**E. Questioned Costs: Actual \_\_\_\_\_ Projected \_\_\_\_\_**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **I. Procurement and Suspension and Debarment**

### **Audit Objectives**

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_.500(c).
- 2) Determine whether procurements were made in compliance with the provisions of 45 CFR 92, 45 CFR 74, and other procurement requirements specific to an award..
- 3) Determine whether the non-Federal entity obtained the required certifications for covered contracts and subawards.

### **Compliance Requirements - General**

#### *Procurement*

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in 45 CFR 92.

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in 45 CFR 74. All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of 45 CFR 92 and 45 CFR 74.

Requirements for procurement are contained in 45 CFR 92 (codified A-102 Common Rule), 45 CFR 74 (Codified Circular A-110), Federal awarding agency regulations, and the terms of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively, are given for each procedure indicated below. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

For local governments in Ohio, testing compliance with State and Local procurement laws and policies will generally be sufficient to address the federal procurement requirements. Where significant weaknesses in procurement controls are noted, or when questionable procurement practices are used for a significant amount/number of procurements, auditors should refer to 45 CFR 92 section and the terms of the specific award.

#### *Suspension and Debarment*

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 (the "small purchase" or "simplified acquisition threshold"). A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date "covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. §\_\_\_.220 of the government-wide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity (§\_\_\_.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

Government wide requirements for nonprocurement suspension and debarment are contained in the OMB guidance in

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **I. Procurement and Suspension and Debarment**

2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension. The OMB guidance, which superseded the common rule published November 26, 2003 is substantially the same as that rule. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award.

See appendix II of the OMB A-133 Compliance Supplement to identify the applicable CFR section and insert in the following cite reference (§\_\_\_\_.105, 110, and 510)

### **Compliance Requirements - Specific Program Requirements**

#### **OAC 5101:9-4-02 Standards for Acquisition. (eff.9-12-05)**

(A) Each county job and family services agency and workforce development agency shall establish written acquisition standards to ensure that all purchases of services, supplies, and equipment are performed in accordance with applicable state law and regulations, including all of the requirements of this chapter, and applicable federal law and regulations including office of management and budget (OMB) Circulars A-87 and A-102, and 7 C.F.R. 3016.36 applicable to expenditure of food and nutrition service funds, 29 C.F.R. 95 applicable to not for profit organizations expending department of labor (D.O.L.) funds, and 29 C.F.R. 97 applicable to governments expending D.O.L. funds, 45 C.F.R. 74 to not for profit organizations expending department of health and human services (HHS) funds and 45 C.F.R. 92 applicable to government expending HHS funds, and OMB Circulars A-87, A-102, and A-133. This chapter contains a number of provisions from the applicable federal rules, but not all such provisions. County family services agencies and workforce development agencies shall refer to all applicable federal and state acquisition requirements in developing their acquisition standards. These acquisition standards are the procedures the county family services agency and workforce development agency will follow in making acquisitions. Such written standards shall contain, at a minimum, all of the provisions of this chapter. County standards may contain additional, more restrictive provisions adopted by the county or workforce development agency which do not conflict with the provisions of this chapter. County acquisition standards are applicable to all state or federal funds received from the Ohio department of job and family services (ODJFS), as well or any county funds used to match state or federal funds received from ODJFS. The requirements contained in this section are not applicable to acquisitions made exclusively with county funds, and which are not used to match state or federal funds received from ODJFS.

(B) Each county family services agency and workforce development agency is legally responsible to ensure that all acquisitions meet the acquisition standards established under this section and all applicable federal and state procurement requirements contained in OMB circulars and federal and state law and rules. The county family services agency and workforce development agency must ensure that all county family services agency and workforce development agency employees know and comply with these acquisition standards.

(C) Each county job and family services, child support enforcement, workforce development , and children services agency shall ensure that any sub-grantee entity is aware of the requirements contained in paragraph (A) of this rule and is given written notice contained in any contract or grant agreement that all acquisitions made by the sub-grantee entity must conform to these requirements.

#### **As noted in ODJFS' Guided Self-Assessment (GSA):**

45 CFR 92.36 includes procurement requirements.

Section (d) currently authorizes the use of four procurement methods. These methods are:

- Small purchase procedures;
- Sealed bids;
- Competitive proposals; and
- Noncompetitive proposals.

The federal regulation provides specific requirements as to the circumstances under which each procurement method

## **I. Procurement and Suspension and Debarment**

may be used and as to the manner in which each procurement method is applied. All procurements with federal monies are to be made in accordance with one of the four approved procedures.

**OAC 5101:9-4-07 (eff. 10-30-06)** also includes the procurement requirements as noted below in GSA under 45 CFR 92.36. Auditors should review these requirements for specific information on the procurement methods.

**Auditors should review OAC 5101:9-4-07 and 45 CFR 92.36 for further detail on the procurement methods above as well as other procurement requirements. The ODJFS Guided Self-Assessment (GSA) includes specific references for 45 CFR 92.36.**

**In determining how the client ensures compliance, consider the following:**

### **Control Objectives**

To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of 45 CFR 92 or 45 CFR 74, as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.

### **Control Environment**

- Existence and implementation of codes of conduct and other policies regarding acceptable practice, conflicts-of-interest, or expected standards of ethical and moral behavior for making procurements.
- Procurement manual that incorporated Federal requirements.
- Absence of pressure to meet unrealistic procurement performance targets.
- Management's prohibition against intervention or overriding established procurement controls.
- Board or governing body oversight required for high dollar, lengthy, or other sensitive procurement contracts.
- Adequate knowledge and experience of key procurement managers in light of responsibilities for procurements for Federal awards.
- Clear assignment of authority for issuing purchasing orders and contracting for goods and services.

### **Risk Assessment**

- Procedures to identify risks arising from vendor inadequacy, e.g., quality of goods and services, delivery schedules, warranty assurances, user support.
- Procedures established to identify risks arising from conflicts-of-interest, e.g., kickbacks, related party transactions, bribery.
- Management understands the requirements for procurement and suspension and debarment, and, given the organization's staff, departments, and processes, has identified where noncompliance could likely occur.
- Conflict-of-interest statements are maintained for individuals with responsibility for procurement of goods or services.

### **Control Activities**

- Job description or other means of defining tasks that comprise particular procurement jobs.
- Contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.
- Establish segregation of duties between employees responsible for contracting and accounts payable and cash disbursing.
- Procurement actions appropriately documented in the procurement files.
- Supervisors review procurement and contracting decisions for compliance with Federal procurement policies.
- Procedures established to verify that vendors providing goods and services under the award have not been suspended or debarred by the Federal Government.
- Official written policy for procurement and contracts establishing:
  - Contract files that document significant procurement history.
  - Methods of procurement, authorized including selection of contract type, contractor selection or rejection, and the basis of contract price.
  - Verification that procurements provide full and open competition.
  - Requirements for cost or price analysis, including for contract modifications.
  - Obtaining and reacting to suspension and debarment certifications.
  - Other applicable requirements for procurements under Federal awards are followed.
- Official written policy for suspension and debarment that:

<b>I. Procurement and Suspension and Debarment</b>	
<ul style="list-style-type: none"> <li>- Contains or references the Federal requirements;</li> <li>- Prohibits that award of a subaward, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and</li> <li>- Requires staff to determine that entities receiving subawards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination, i.e., checking the <i>Excluded Parties Listing System (EPLS)</i>, which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.</li> </ul> <p><b>Information and Communication</b></p> <ul style="list-style-type: none"> <li>• A system in place to assure that procurement documentation is retained for the time period required by 45 CFR 92, 45 CFR 74, award agreements, contracts, and program regulations. Documentation includes: <ul style="list-style-type: none"> <li>- The basis for contractor selection;</li> <li>- Justification for lack of competition when competitive bids or offers are not obtained; and</li> <li>- The basis for award cost or price.</li> </ul> </li> <li>• Employees' procurement duties and control responsibilities are effectively communicated.</li> <li>• Procurement staff are provided a current hard-copy <i>EPLS</i> or have on-line access.</li> <li>• Channels of communication are provided for people to report suspected procurement and contracting improprieties.</li> </ul> <p><b>Monitoring</b></p> <ul style="list-style-type: none"> <li>• Management periodically conducts independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.</li> <li>•</li> </ul>	
<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
<p>Has the County JFS agency established written acquisition standards to ensure that all purchases of services, supplies, and equipment performed in accordance with applicable state / federal law and regulations?</p> <p>Has the County JFS agency established procedures to ensure that any sub-grantee entity was aware of the requirements contained in paragraph (A) of the OAC rule above and given written notice contained in any contract or grant agreement that all acquisitions made by the sub-grantee entity must conform to these requirements?</p> <p><b>The ODJFS Guided Self-Assessment (GSA) requests County JFS offices to provide controls over procurement. Auditors should review the information provided by the County JFS for this assessment to help gain an understanding of the procedures in place.</b></p>	
<b>Suggested Audit Procedures – Compliance (Substantive Tests)</b>	<b>WP Ref.</b>
<ol style="list-style-type: none"> <li>1) Test a representative number of procurements to ascertain if the State's laws and procedures were followed and that the policies and procedures used were the same as for non-Federal funds.</li> <li>2) Select a representative number of procurements and subawards and— <ol style="list-style-type: none"> <li>a) Test whether the non-Federal entities performed a verification check for covered transactions, by checking the <i>EPLS</i>, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity; and</li> <li>b) Test the sample of procurements and subawards against the <i>EPLS</i> and ascertain if covered transactions or subawards were awarded to suspended or debarred parties.</li> </ol> </li> </ol>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

**I. Procurement and Suspension and Debarment**

**Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)**

**A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)**

**B. Assessment of Control Risk:**

**C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**

**D. Results of Compliance (Substantive Tests) Tests:**

**E. Questioned Costs: Actual \_\_\_\_\_ Projected \_\_\_\_\_**

<b>J. Program Income</b>
Per ODJFS, there is no program income for CHIP at the County level.

<b>K. Real Property Acquisition and Relocation Assistance</b>
The OMB Compliance Supplement indicates Section K is not applicable to this program.

## **L. Reporting**

### **Audit Objectives**

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

### **Compliance Requirements – Specific Program Requirements**

**There are currently no OMB reporting requirements for Counties.**

**OAC 5101:9-7-03** and **5101:9-7-03.1 (eff. 9-12-09)**, provide guidance on the financing, cash management, and quarterly reconciliation and closeout procedures (including some Form 02827 reporting requirements) are in. Public Assistance (PA) funds are determined quarterly and disbursed weekly to the County JFS, upon receipt of the county cash draw request for funds. Available funds are limited by state appropriation and federal grant awards. All payments are issued via electronic funds transfer (EFT). County JFS shall report receipt of revenue, disbursements of funds and provide documentation to justify the allocation of costs and various funds by the submission of the JFS 02710 "Income Maintenance RMS – Random Moment Sample Observation Form" (rev. 3/2009) or the JFS 02714 "Social Services Random Moment Sample Observation Form" (rev. 3/2009). A state expenditure reconciliation report of the PA data subset is prepared quarterly to show a summary of net expenditures and receipts. The county agency is given the opportunity to review the reconciliation reports for accuracy. The quarterly PA fund reconciliation review requirement is intended to correct instances where ODJFS or the county agency discover errors, i.e. incorrect splits of shared costs or wrong allocations, incorrect time study codes, and/or JFS 02827 codes and expenditures. Quarterly close - The PA fund is reconciled each quarter based on the final reconciliation reports.

Previously, these same requirements were part of OAC 5101:9-7-03. This rule was split into three different rules – OAC 5101:9-7-03 Public assistance (PA) financing and cash management; OAC 5101:9-7-03.1 Public assistance (PA) quarterly reconciliation; OAC 5101:9-7-03.2 Public assistance (PA) annual and grant closeout.

#### **Prior to 9-12-09, the annual and grant closeout procedures were as follows:**

Annual closeout - Final July through September quarterly expenditures corrections are due to ODJFS and shall be uploaded into the statewide automated accounting system by the tenth day of November each year in preparation for the annual closeout. Upon receipt of all final reports, ODJFS shall perform a reconciliation for each CDJFS and at the discretion of the ODJFS director, may redistribute appropriated funds on a grant by grant basis. The annual reconciliation report and JFS 02717 "Annual Closeout Agreement and Certification Administrative Fund Reconciliation" (rev. 12/2006) shall be generated by ODJFS and sent to the CDJFS no later than the tenth of January. If the CDJFS agrees with the JFS 02717, the CDJFS shall return the agreement containing the authorized person's signature to ODJFS no later than the last day of January. The final exchange of funds for the SFY closeout shall occur as follows: (1) The CDJFS shall submit one check for the total overpayment amount no later than the fifteenth of March unless the county disagrees with the annual closeout amount as described in paragraph (L) of this rule. Separate checks for each allocation are not necessary. Failure by the CDJFS to remit payment by the fifteenth of March may result in referral to the office of the attorney general for collection proceedings. (2) ODJFS shall redistribute funds to the CDJFS for any underpayment no later than the last business day of March. The redistribution process shall be dependent upon the timely receipt of funds by counties with overpayments.

#### **Beginning 9-12-09, the annual and closeout procedures for Federal subawards are as follows:**

Federally funded sub-grants should be reconciled quarterly throughout the grant availability period and at the discretion of the director of ODJFS, certain grants may be available for expenditure for the duration of the federal grant period of obligation and liquidation. At the end of the SFY, all unexpended financial allocations obligated from those federal grant funds may continue to be valid for expenditure during subsequent SFYs. Grants not selected to continue past the end of the SFY will be closed along with state-funded allocations as outlined in paragraph (B) of this rule. Rather than being closed during annual closeout, grants selected to continue across state fiscal years will be closed at the end of the grant availability period during the normal quarterly closeout process.

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## L. Reporting

(1) At the end of the grant availability period, upon receipt of all final quarterly reports, ODJFS will perform a grant reconciliation and at the discretion of the ODJFS director, may redistribute appropriated funds on a grant by grant basis. (a) For each grant and based on CDJFS under-spending, the ODJFS will determine, on a statewide basis, the amount of available funds that may be redistributed. The ODJFS will provide preliminary redistribution amounts to any CDJFS that has expenditures in excess of the grant in which available funds have been identified. The ODJFS will develop a formula that details the calculation for the available grant redistribution. (b) The results of any statewide distribution will be reflected on the grant reconciliation report.

(2) The ODJFS will send the grant reconciliation report to the CDJFS after the end of the grant period. The CDJFS shall review the grant reconciliation report and notify ODJFS if any disagreement with the amounts within fifteen business days of the date of receipt.

(3) If the CDJFS disagrees with the grant reconciliation report, the CDJFS shall return the reconciliation report stating its disagreement, along with supporting documentation to the BCFTA. The ODJFS fiscal supervisor assigned to the CDJFS will review the documentation, verify the fiscal amount, and submit a report of findings to ODJFS within thirty days of receipt of the information.

(4) If the records of ODJFS are found to be in error, the ODJFS will correct the error and generate a revised annual reconciliation report within fifteen business days of receipt of the ODJFS fiscal supervisor's findings. The CDJFS shall return any applicable payment within thirty days, of receipt of the revised reconciliation. The identification of an error in ODJFS records may result in subsequent adjustments to statewide redistribution and ceiling excess coverage.

(5) If the CDJFS's records are found to be in error, the CDJFS shall only request correction of the error if it results in monies returned to the state. The CDJFS shall remit applicable payment within thirty business days of receipt of the ODJFS fiscal supervisor's findings.

(D) Any excess expenditures identified in the procedures in paragraph (C) of this rule after grant closeout and redistribution occurs shall become the responsibility of each CDJFS that has remaining excess expenditures. Coding adjustments shall be made to current periods as covered in paragraphs (E) and (F) of this rule and shall not be available for closed period grants.

Overpayments and underpayments will be offset and the final exchange of funds for the grant closeout shall occur as follows: (1) The CDJFS shall submit one check for any overpayment unless the county disagrees with the grant closeout amount as described in paragraph (C) of this rule. Failure by the CDJFS to remit payment as requested may result in referral to the office of the attorney general for collection proceedings. (2) The ODJFS will redistribute funds to the CDJFS for any underpayment. The redistribution process may be dependent upon the timely receipt of funds by counties with overpayments.

**The Rule governing county collections is as follows. This is not the entire rule. If auditors need additional information on reporting county collections, they should review the entire OAC requirement.**

### **OAC 5101:9-7-06 Reporting County Collections (Effective Date: August 8, 2008)**

A. When a public assistance recipient has received a cash or benefit overpayment for general assistance (GA), disability financial assistance (DFA), temporary assistance for needy families (TANF) or aid to dependent children (ADC) assistance, family emergency assistance (FEA) medical, child care, medicaid, food stamps (FS), early learning initiative (ELI), employment retention incentive program (ERI) or prevention, retention and contingency (PRC);, the county department of job and family services (CDJFS) shall recover the funds.

1) The CDJFS shall report cash erroneous payments collections that qualify for earnings on the JFS 02827 "Monthly Financial Statement" (rev. 11/2000) as follows:

B. The CDJFS shall report the following erroneous payments collections as receipts on the JFS 02827:

- (1) Cancellations, collections, refunds, or other GA receipts;
- (2) Collections of erroneous payments for FEA medical;

## L. Reporting

- (3) Collections of ADC erroneous payments made prior to October 1, 1987;
- (4) Cancellations, collections, refunds, or other child care receipts;
- (5) Collections of erroneous payments of ELI funds;
- (6) Collections of erroneous payments of ERI funds; and
- (7) Collections of PRC.

C. ODJFS will include the erroneous payment collections, as reported on the JFS 02827, on the over/under report and as part of the quarterly close calculation.

### **County Level Requirements - Tested in conjunction with Medicaid**

In order for ODJFS to prepare the financial reports required, they must obtain financial information from the counties. On a monthly basis, each county is required to submit to ODJFS a 2827 Monthly Financial Statement (relating to all public assistance programs). Tests related to reporting at the county level for public assistance will be limited to the 2827 form and include the following:

1. The CDJFS director must certify the accuracy and amount of disbursements in Section C.
2. Per the Administrative Procedure Manual (APM) Section 7902, the ODJFS 2827 Monthly Financial Statement must be submitted to the Ohio Department of Job and Family Services Bureau of Budget and Control, County Finance Section no later than the 20<sup>th</sup> of the month following the expenditure month.

The Counties are also required to include cash or benefit overpayments on JFS 2827. Counties retain Benefit recoveries monies (incentive monies) and report quarterly on the JFS 2827 to offset future draws from ODJFS. Most recoveries are from court convictions and many are uncollectible. The County recovers collectible benefits via payback plans or a reduction in benefits.

Counties can also receive spend down monies if recipients are part of spend down program. Counties can receive payment for spend down requirements or they may require the recipient to bring in receipts to support spend down requirement. If the County does accept monies, they should have established spend down collection procedures. Counties enter these monies into CFIS and like recoveries, report quarterly on the JFS 2827 and offset future draws from ODJFS.

ODJFS 02827 form and instructions can be found at <http://jfs.ohio.gov/ofs/bcfta/TOOLS/TOOLS.stm> .

**Auditors should test the ODJFS 02827 Form in conjunction with other programs also reported on the Form. The following is a list of programs reported on the ODJFS 02827 Monthly Financial Statement Public Assistance Fund Certification Sheet:**

<b>Medicaid CHIP / SCHIP Food Assistance / SNAP TANF Child Care Cluster Social Service Block Grant</b>
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In addition, the County should be reviewing the grant reconciliation report and responding to ODJFS.

**Note: ODJFS changed the grant years for many programs from the state fiscal year end (6-30) to the Federal fiscal year end (9-30). Auditors should review grant information to determine closeout period.**

**(Source: ODJFS)**

**In determining how the client ensures compliance, consider the following:**

#### **Control Objectives**

To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

<b>L. Reporting</b>	
<b>Control Environment</b>	
<ul style="list-style-type: none"> <li>• Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.</li> <li>• Management's attitude toward reporting promotes accurate and fair presentation.</li> <li>• Appropriate assignment of responsibility and delegation of authority for reporting decisions.</li> </ul>	
<b>Risk Assessment</b>	
<ul style="list-style-type: none"> <li>• Mechanisms exist to identify of faulty reporting caused by such items as lack of current knowledge of inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards.</li> <li>• Identification of underlying source data or analysis for performance or special reporting that may not be reliable.</li> </ul>	
<b>Control Activities</b>	
<ul style="list-style-type: none"> <li>• Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.</li> <li>• Tracking system which reminds staff when reports are due.</li> <li>• The general ledger or other reliable records are the basis for the reports.</li> <li>• Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.</li> <li>• The required accounting method is used (e.g., cash or accrual).</li> </ul>	
<b>Information and Communication</b>	
<ul style="list-style-type: none"> <li>• An accounting or information system that provides for the reliable processing of financial and performance information for Federal awards.</li> </ul>	
<b>Monitoring</b>	
<ul style="list-style-type: none"> <li>• Communications from external parties corroborate information included in the reports for Federal awards.</li> <li>• Periodic comparison of reports to supporting records.</li> </ul>	
<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
<u><b>ODJFS 2827:</b></u> Identify and document the control procedures addressing the ODHS 2827.	
<u><b>Grant Reconciliation Report</b></u> What controls does the County JFS have over the review of the grant reconciliation report?	
<b>Suggested Audit Procedures – Compliance (Substantive Tests)</b>	<b>WP Ref.</b>
<u><b>ODJFS 2827:</b></u> <ol style="list-style-type: none"> <li>1. Based on the results of the test of controls, select monthly <b>ODJFS Form 2827</b> reports in the audit period. Review reports to determine if: <ul style="list-style-type: none"> <li>— It was submitted to ODJFS in a timely manner (Report is due by the 20th of the month following the expenditure month).  <b>Note: Inquire if reports are being electronically submitted. If submitted electronically, the electronic submission date is an acceptable date.</b></li> <li>— It is mathematically accurate; recalculate amounts as necessary.</li> <li>— All amounts reported are traceable to appropriate supporting documentation and appear to be code properly.</li> <li>— All amounts reported agree to the Quarterly CFIS reconciliation from ODJFS.</li> <li>— All amounts reported agree to the County Auditors records.</li> <li>— Form 2827 was signed by County Auditor and County JFS Director</li> </ul> </li> <li>2. Determine if the County JFS reviewed the grant reconciliation report and responded to ODJFS.</li> <li>3. 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 or pass-through entity in the case of a subrecipient.</li> </ol>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>L. Reporting</b>	
<b>Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)</b>	
<b>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</b>	
<b>B. Assessment of Control Risk:</b>	
<b>C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:</b>	
<b>D. Results of Compliance (Substantive Tests) Tests:</b>	
<b>E. Questioned Costs: Actual _____ Projected _____</b>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## M. Subrecipient Monitoring

### Audit Objectives

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c).
- 2) Determine whether the pass-through entity properly identified Federal award information and compliance requirements to the subrecipient, and approved only allowable activities in the award documents.
- 3) Determine whether the pass-through entity monitored subrecipient activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.
- 4) Determine whether the pass-through entity ensured required audits are performed, issued a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and ensures that the subrecipient takes timely and appropriate corrective action on all audit findings.
- 5) Determine whether in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions.
- 6) Determine whether the pass-through entity evaluates the impact of subrecipient activities on the pass-through entity.

### Compliance Requirements - General

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In case of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

#### *During-the-Award Monitoring*

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage passed through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* – Larger dollar awards are of greater risk.
- *Subrecipient risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## M. Subrecipient Monitoring

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

### *Agreed-upon procedures engagements*

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$500,000 for fiscal years ending after December 31, 2003) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 (§\_\_\_\_.230(b)(2))).

### Source of Governing Requirements

The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133 (§\_\_\_\_.225 and §\_\_\_\_.400(d)), 45 CFR 92, and 45 CFR 74, Federal awarding agency program regulations, and the terms and conditions of the award.

## Compliance Requirements – Specific Program Requirements

**Counties should never contract out eligibility determinations or Healthchek services. Counties can however, contract out for support or outreach services, EPSDT services (non-NET contract) and NET services (non-emergency transportation). Contracts (whether vendor or subrecipient) are not required to be submitted or approved by ODJFS. Auditors should review contracts entered into by the County JFS for services to determine if a vendor or subrecipient relationship exists. Auditors should also look for reoccurring expenditures to determine if such a relationship exists without entering into a formal contract.**

**ODJFS has provided the following mandated process for subrecipient monitoring.**

ODJFS subrecipient monitoring tools 1) Subrecipient / Vendor Checklist; 2) Subrecipient / Vendor Example (Criteria Summary); 3) (Subrecipient) Monitoring Checklist; 4) Risk Assessment Tool are all available at <http://jfs.ohio.gov/ofs/bcfta/TOOLS/TOOLS.stm> .

**OAC 5101:9-1-88 Subrecipient annual risk assessment review and subrecipient monitoring process. (eff. 4-1-06)**

(A) The Ohio department of job and family services (ODJFS), as a recipient of federal funding, is requiring local agencies, as subrecipients, to monitor their subrecipients. The standard monitoring protocol for local agencies in the oversight of subrecipients of federal funding follows the requirements set forth in the office of management and budget (OMB) circular A-133, compliance supplement, part 3, and other applicable federal principles. Subrecipient monitoring is not an audit. Subrecipient monitoring does not test for all areas of compliance, but serves as a means of evaluating those compliance elements that can be monitored to reasonably ensure the credibility of the federal program. This rule does not negate federal, state, or local requirements of the Workforce Investment Act or other specific federal programs.

(B) [AOS Note](#): Certain terminology is contained in this rule in section B of this code. See OAC code section.

(C) Local agencies may enter into a contractual relationship with any entity that falls within the criteria of a vendor or a subrecipient. Contracts with vendors require contract monitoring. Subaward agreements require subrecipient monitoring. The substance of the relationship is more important than the form of the agreement when making the determination of whether a subrecipient or vendor relationship exists. Local agencies shall apply the following

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **M. Subrecipient Monitoring**

guidelines to determine whether a contract represents a subrecipient relationship or a vendor relationship. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or a vendor. The distinguishing characteristics are as follows:

(1) Subrecipient characteristics: (a) Determines who is eligible to receive federal financial assistance; (b) Measures performance against the objectives of the federal program requirements; (c) Has responsibility for programmatic decision making and is adhering to the requirements of the federal program; (d) Uses the federal funds to implement a program rather than provide goods or services for the program of a pass-through entity; (e) Administers the grant from award to closeout; (f) Develops policies and systems to ensure effective management of federal funds and compliance with federal, state, and local laws and regulations; and (g) Ensures an established budget of costs exists to operate the program and a method of monitoring actual costs against the budget.

(2) Vendor characteristics: (a) Provides services or goods within normal business operations; (b) Provides similar or same goods or services to many different purchasers; (c) Operates in a competitive environment; (d) Provides goods or services ancillary to the operation of a federally funded program; (e) Is not subject to compliance requirements of the federal programs; and (f) Is not responsible for program compliance but transactions must be structured to allow the pass-through entity to assure compliance.

(D) Each subaward agreement shall outline the scope of work, budget, performance requirements, the program authorizing legislation, and the program regulations. Subawards must meet key provisions that include, at a minimum, administrative requirements. Those administrative requirements include financial management, procurement, financial reports, program reports, records retention, cost allocation, payment, matching, period of availability, program income, real property, equipment, supplies, monitoring, audits, and other additional requirements to meet federal compliance. In accordance with those requirements, all subawards agreements will contain the following: (1) Applicable CFDA title and number, award name, and name of federal agency; (2) Notice of any applicable compliance requirements with audit requirements of OMB circular A-133, including arranging the audit and submission of the final audit report to the local agency; and (3) Notice the local agency will perform an annual risk assessment to determine the level of monitoring of the subrecipient.

(E) Subrecipient monitoring protocol is established by ODJFS to provide reasonable assurance that federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient non-compliance on the pass-through entity is evaluated. Local agencies shall provide reasonable assurance that the subrecipient obtained any required audits and takes appropriate corrective action on audit findings.

(F) On an annual basis, local agencies shall determine the most appropriate degree and method of the monitoring of compliance requirements for each subrecipient, by performing a risk assessment review, to ensure resources and personnel are used efficiently. The extent and frequency of subrecipient monitoring will depend on several factors that include the amount of the award, the type of subrecipient organization, the subrecipient's prior experience with federal funds, the subrecipient's prior monitoring results, the complexity of the program requirements, the subrecipient's organizational stability, and its reporting history. Risk assessment review mechanisms shall be in place to identify the following: (1) Where unallowable activities or costs could be charged to a federal program and be undetected or misappropriated, or improper disposition of property acquired with federal funds; (2) Changes to eligibility determination systems; (3) The accuracy of underlying report source data and the validity of the reports; (4) The level of management commitment and understanding of federal requirements and regulatory changes; and (5) Various internal changes that may affect performance, such as: (a) Financial problems; (b) Loss of essential personnel; and (c) Rapid growth.

(G) The local agency shall conduct the subrecipient risk assessment review annually and the review shall occur within a reasonable time interval from the beginning of the provision of the service or the establishment of the subrecipient relationship in order to identify any existing risk factors during the early phase of the grant agreement and determine the level of monitoring that shall occur.

(H) Subrecipient monitoring may include, but not be limited to, the following:

(1) An on-site or desk review of the subrecipient's records to verify the services being provided are within the scope

## **M. Subrecipient Monitoring**

of the funding being received and the subrecipient has an effective means of determining recipients are eligible for the services being provided. Allowability of services and eligibility will be monitored by examining one or more of the following items: (a) Program records to review brochures and/or materials disseminated to the public; (b) Program forms to ensure they capture accurate program services and eligibility requirements; and (c) Case files, completed applications, service delivery documentation, and other program records and forms to determine the subrecipient is appropriately assessing eligibility criteria and the service delivery documentation is valid.

(2) An on-site or desk review of the subrecipient's records in order to provide reasonable assurance the cost of goods, services, and property are allowable, in accordance with applicable federal regulations and expenditures appear to be within the budget submitted for approval by examining one or more of the following items: (a) Purchasing records or invoices to ensure expenditures are allowable, necessary, and reasonable; (b) Monthly expenditure reports to compare with the annual budget amounts to determine an appropriate level of spending and expenditures being charged against the fund are supported by an approved budget; (c) Invoices and budgets, in order to provide reasonable assurance that costs and charges are within the scope of allowable federal costs. The reviewer may interview management personnel and review procedure manuals, inventory, and audit reports to ensure the subrecipient has effective control over and accountability for all funds, property, and other assets; (d) Financial records to assure accounting records identify the source of funds and provide for accurate division of charges and costs between federal and non-federal activities; (e) Subrecipient's procedure manual or other operating policies to determine the subrecipient has an effective means of communication, internal control, and guidance for its employees to reasonably guard against the misuse of funds; (f) Quarterly/annual inventory reports to determine the subrecipient has a method for safeguarding assets to assure they are used solely for authorized purposes; and (g) The reviewer will examine audit reports to determine compliance with any existing corrective action plan.

(3) An on-site or desk review of the subrecipient's records in order to provide reasonable assurance the recipient has acquired goods and services in accordance with applicable state and federal regulations by examining one or more of the following items: (a) Subrecipient's procurement policy or manual to determine whether the policy represents an acceptable level of internal control and is in accordance with federal procurement requirements; (b) A sampling of various transactions to ensure the policy is being followed; and (c) Codes of conduct and other policies regarding standards of ethical behavior for making procurements to assure practice of acceptable procurement principles.

(4) An on-site or desk review in order to provide reasonable assurance reports are supported by underlying accounting or performance records and are submitted in accordance with the provisions of the subaward agreement by examining the following items: (a) Pass-through entities' records to assure timely receipt of required reports; and (b) Supporting documentation, for a sampling of reports to assure the accuracy and completeness of data and information included in the reports.

(I) In accordance with the local agency's annual risk assessment review, as described in paragraph (F) of this rule, and audit requirements, as described in paragraph (B)(5) of this rule, subrecipient monitoring may also include evaluation of the following elements, as applicable.

(1) Cash management, in which the reviewer will provide reasonable assurance federal funds are drawn down only for immediate needs. The reviewer will examine a sampling of expenditures and requests for federal funds to determine an appropriate amount of time elapsed between transfers of funds to the subrecipient.

(2) Program income, in which the reviewer will provide reasonable assurance income is correctly earned, recorded, and used in accordance with the program requirements. The reviewer will examine a sampling of the subrecipient's records to determine income is properly recorded as earned and deposited as collected.

(3) Audit requirements, in which the reviewer will provide reasonable assurance the subrecipient has obtained required audits and has submitted and is in compliance with any corrective action plan resulting from said audits. The reviewer will examine the audit report and any existing corrective action plan and obtain documentation of compliance with the existing corrective action plan.

(J) Once the subrecipient monitoring is concluded, findings will be completed by the reviewer and signed by the director

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of the agency or its designee. A copy will be mailed to the subrecipient, identifying any deficiencies.

(K) Should the reviewer discover deficiencies or noncompliance issues that may result in the ineligible use of federal funds, immediate action to correct those issues will occur. The pass-through agency may be responsible for recovering the funds for payment of expenditures not in compliance with grant regulations.

(L) The subrecipient will have sixty days from the issuance of the monitoring findings to develop an improvement plan to resolve any deficiencies or noncompliance issues that do not result in ineligible spending of federal funds. Failure of the subrecipient to submit and implement an improvement plan will constitute grounds for contract or subaward agreement termination.

### **In determining how the client ensures compliance, consider the following:**

#### **Control Objectives**

To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.

#### **Control Environment**

- Establishment of “tone at the top” of management’s commitment to monitoring subrecipients.
- Management’s intolerance of overriding established procedures to monitor subrecipients.
- Entity’s organizational structure and its ability to provide the necessary information flow to monitor subrecipients are adequate.
- Sufficient resources dedicated to subrecipient monitoring.
- Knowledge, skills, and abilities needed to accomplish subrecipient monitoring tasks defined.
- Individuals performing subrecipient monitoring possess knowledge, skills, and abilities required.
- Subrecipients demonstrate that:
  - They are willing and able to comply with the requirements of the award, and
  - They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award.
- Appropriate sanction taken for subrecipient noncompliance.

#### **Risk Assessment**

- Key managers understand the subrecipient’s environment, systems, and controls sufficient to identify the level and methods of monitoring required.
- Mechanisms exist to identify risks arising from external sources affecting subrecipients, such as risks related to:
  - Economic conditions.
  - Political conditions.
  - Regulatory changes.
  - Unreliable information.
- Mechanisms exist to identify and react to changes in subrecipients, such as:
  - Financial problems that could lead to diversion of grant funds.
  - Loss of essential personnel.
  - Loss of license or accreditation to operate program.
  - Rapid growth.
  - New activities, products, or services.
  - Organizational restructuring.

#### **Control Activities**

- Identify to subrecipients the Federal award information (e.g., CFDA title and number, award name, name of Federal agency, amount of award) and applicable compliance requirements.
- Include in agreements with subrecipients the requirement to comply with the compliance requirements applicable to the Federal program, including the audit requirements of OMB Circular A-133.
- Subrecipients’ compliance with audit requirements monitored using techniques such as the following:
  - Determine by inquiry and discussions whether subrecipient met thresholds requiring an audit under OMB

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Circular A-133.

- If an audit is required, assuring that the subrecipient submits the report, report package or the documents required by OMB circulars and/or recipient’s requirements.
- If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, following up with the subrecipient until the audit is completed. Taking appropriate actions such as withholding further funding until the subrecipient meets the audit requirements.
- Subrecipient’s compliance with Federal program requirements monitored using such techniques as the following:
  - Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable.
  - Maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken.
  - Regular contact with subrecipients and appropriate inquiries concerning the Federal program.
  - Reviewing subrecipient reports and following-up on areas of concern.
  - Monitoring subrecipient budgets.
  - Performing site visits to subrecipient to review financial and programmatic records and observe operations.
  - Offering subrecipients technical assistance where needed.
- Official written policies and procedures exist establishing:
  - Communication of Federal award requirements to subrecipients.
  - Responsibilities for monitoring subrecipients.
  - Process and procedures for monitoring.
  - Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control.
  - Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity’s accounts.

**Information and Communication**

- Standard award documents used by the non-Federal entity contain:
  - A listing of Federal requirements that the subrecipient must follow. Items can be specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria.
  - The description and program number for each program as stated in the CFDA. If the program funds include pass-through funds from another recipient, the pass-through program information should also be identified.
  - A statement signed by an official of the subrecipient, stating that the subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements.
- A recordkeeping system is in place to assure that documentation is retained for the time period required by the recipient.
- Procedures are in place to provide channels for subrecipients to communicate concerns to the pass-through entity.

**Monitoring**

- Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, onsite monitoring reviews of subrecipients, and timely resolution of audit findings.
- Supervisory review performed to determine the adequacy of subrecipient monitoring.

<b>What control procedures address the compliance requirement?</b>	<b>WP Ref.</b>
<p>Does the County have procedures in place to perform an annual risk assessment review, considering the following:</p> <ul style="list-style-type: none"> <li>• Extent and frequency of the review;</li> <li>• Type of subrecipient organization;</li> <li>• Subrecipient’s prior experience;</li> <li>• Subrecipient’s prior monitoring results;</li> <li>• Complexity of the program requirements;</li> <li>• Subrecipient’s organizational stability; and</li> <li>• Subrecipient’s reporting history</li> </ul> <p>Are there risk assessment review mechanisms to identify the following:</p> <ul style="list-style-type: none"> <li>• When unallowable activities or costs could be charged to a federal program and be undetected or misappropriated, or improper disposition of property acquired with federal funds;</li> <li>• Changes to eligibility determination systems;</li> </ul>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>M. Subrecipient Monitoring</b>	
<ul style="list-style-type: none"> <li>• Accuracy of underlying report source data and the validity of the reports;</li> <li>• Level of management commitment and understanding of federal requirements and regulatory changes; and</li> <li>• Various internal changes that may affect performance such as financial problems, loss of personnel and rapid growth.</li> </ul> <p><b>The ODJFS Guided Self-Assessment (GSA) requests County JFS offices to provide controls over subrecipient monitoring. Auditors should review the information provided by the County JFS for this assessment to help gain an understanding of the procedures in place.</b></p>	
<b>Suggested Audit Procedures – Compliance (Substantive Tests)</b>	
<p>(Note: The auditor may consider coordinating the tests related to subrecipients performed as part of Cash management (tests of cash reports submitted by subrecipients) and Procurement (tests ensuring that a subrecipients is not suspended or debarred) with the testing of Subrecipient Monitoring.)</p> <ol style="list-style-type: none"> <li>1) Gain an understanding of the pass-through entity's (County's) subrecipient procedures through a review of the County's subrecipient monitoring policies and procedures (e.g., annual risk assessment review) and discussions with staff. This should include an understanding of the scope, frequency, and timeliness of monitoring activities and the number, size, and complexity of awards to subrecipients.</li> <li>2) Test award documents and agreements to ascertain if: (a) at the time of award the pass-through entity made subrecipients aware of the award information (e.g., CFDA title and number, amount of award, award name, name of Federal agency) and requirements imposed by laws, regulations and the provisions of contract or grant agreements; and (b) the activities approved in the award documents were allowable.</li> <li>3) Review the County's documentation of the annual risk assessment review to ascertain if the pass-through entity's monitoring provided reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.</li> <li>4) Review the County's follow-up to the subrecipient's improvement plan on deficiencies noted during the annual risk assessment review. Subrecipient's must submit an improvement plan within 60 days from issuance of the findings.</li> <li>5) Verify that the County: <ol style="list-style-type: none"> <li>a) Ensured that the required subrecipient audits were completed. For subrecipients that are not required to submit a copy of the reporting package to a pass-through entity because there were "no audit findings" (i.e., because the schedule of findings and questioned costs did not disclose audit findings relating to the Federal awards that the pass-through entity provided and the summary schedule of prior audit findings did not report the status of audit findings relating to Federal awards that the pass-through entity provided, as prescribed in OMB Circular A-133 §____.320(e)), the pass-through entity may use the information in the Federal Audit Clearinghouse (FAC) database (available on the Internet at <a href="http://harvester.census.gov/sac">http://harvester.census.gov/sac</a>) as evidence to verify that the subrecipient had "no audit findings" and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to the pass-through entity when there are no audit findings.</li> <li>b) Issued management decisions on audit findings within 6 months after receipt of the subrecipient's audit report.</li> <li>c) Ensured that subrecipients took appropriate and timely corrective action on all audit findings.</li> </ol> </li> <li>6) Verify that in cases of continued inability or unwillingness of a subrecipient to have the required audits or follow up on the risk assessment review, the pass-through entity took appropriate action. As noted in the OAC section above, failure to submit and <u>implement</u> an improvement plan will</li> </ol>	<b>WP Ref.</b>

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

<b>M. Subrecipient Monitoring</b>	
<p>constitute grounds for contract or subaward agreement termination.</p> <p>7) Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity's records.</p> <p>8) Verify that the pass-through entity monitored the activities of subrecipients not subject to OMB Circular A-133, using techniques such as those discussed in the "Compliance Requirements" provisions of this section with the exception that these subrecipients are not required to have audits under OMB Circular A-133 and the OAC section noted above.</p>	
<b>Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)</b>	
<p><b>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</b></p> <p><b>B. Assessment of Control Risk:</b></p> <p><b>C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:</b></p> <p><b>D. Results of Compliance (Substantive Tests) Tests:</b></p> <p><b>E. Questioned Costs: Actual _____ Projected _____</b></p>	

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

## **N. Special Tests and Provisions**

The OMB Compliance Supplement indicates Section N is not applicable to this program.

Per ODJFS, there are no County level CHIP requirements except for LPMD (same as Medicaid). See next requirement.

## N. Special Tests and Provisions – Local Program Management Description

### Audit Objectives

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_,500(c).
- 2) To determine if the County has completed the LPMD and performing the activities reported in the LPMD.

### Compliance Requirements

The Healthcek program is a child health care program which offers every Medicaid recipient under 21 years of age medically necessary comprehensive health services. Pregnancy-Related Services (PRS) is a program which provides reimbursement for services to all pregnant Medicaid-eligible women.

The Early, Periodic, Screening, Diagnosis and Treatment (EPSDT) program, known in Ohio as Healthcek, and the Pregnancy-Related Services (PRS) program are federally mandated programs. In order to provide accurate information to the federal government, the Ohio Department of Job and Family Services is requiring that each County Department of Job and Family Services (CDJFS) complete and submit a Local Program Management Description (LPMD) for these programs. The LPMD was to be completed and returned to the OHP Bureau of Consumer and Program Support's County Compliance Section by October 15, 2005. The LPMD shall include a section for each program.

**(Source: ODJFS LPMD emanual)**

The Federal law supporting state-wideness of the program is the Omnibus Reconciliation Act of 1989 and 42 USC 1396(a)(a)(1). This requirement is part of the corrective action plan from CMS. Everyone has identified they are operating consistently throughout the State, thus meeting minimum requirements.

Per ODJFS, counties do submit these plans to the ODJFS, however, these plans will change over time. Auditors should obtain the plans for their testing period from the County JFS.

Counties should be sharing JFS 3528 documentation with Managed Care Plans documentation. Form 3528 are completed for EPSDT and PRS (pregnancy). They are sent to the consumer and then returned to County JFS. The information should be shared with the managed care plan. This is an information sharing tool. ODJFS is looking for how the County JFS is sharing information. Managed Care Plans are specific to regions and recipients choose MCP. If not they are assigned to a plan. JFS 3528 is currently being revised.

ODJFS also requested we look at documentation of the County JFS following up on JFS 3535's for high risk pregnancies (for PRS program). This form is used as a tool for working with individual to get special types of services for at risk services (i.e. under/over weight – nutritional services, smokers, homeless). It is initiated by the provider who determines at risk pregnancy. The form goes to eligibility worker or EPSDT (depends on LPMD). If no form is filed there is no follow-up. However, if a form is on file, the County JFS should show follow-up with client.

### MEDICAID - HEALTHCEK PROGRAM

OAC 5101:1-38-05 (K) **(effective 10/15/05)**

The LPMD of the CDJFS Healthcek program must include the following information:

- Identify where, in the CDJFS table of organization, the responsibility for the Healthcek program is located and the name(s) and title(s) of the contact person or Coordinator.
- A description of all assigned duties (Healthcek related AND unrelated duties, if any) of the staff/unit responsible for informing the following groups of Healthcek eligible consumers:
  - a. Newly eligible Medicaid individuals
  - b. Pregnant women
  - c. Individuals in the custody of a public or private children's service agency
  - d. Hearing, vision, or speech impaired individuals
  - e. Individuals who have difficulty reading
  - f. Non-English speaking individuals

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- A description of the process for follow up of children with elevated blood lead levels.

### MEDICAID - PREGNANCY RELATED SERVICES (PRS) PROGRAM

OAC 5101:1-38-06 (K)

The LPMD of the CDJFS Pregnancy Related Services (PRS) program must include the following information:

- Identify where in the CDJFS table of organization the responsibility for the Pregnancy Related Services (PRS) program is located and the name(s) and title(s) of the contact person or Coordinator.
- A description of all assigned duties (PRS related AND unrelated duties, if any) of the staff/unit responsible for informing women identified as pregnant of the following:
  - a. The Pregnancy Related Services Program.
  - b. The importance of prenatal care.
  - c. The availability to assist eligible pregnant women in receiving an initial physician visit
- Identify the staff/unit responsible for the submission of pregnancy related services quarterly reports to ODJFS
- Identify how the CDJFS tracks women identified as pregnant
- Describe the following information concerning transportation services:
  - a. Types of transportation services available to pregnant women
  - b. Who will provide the transportation services
  - c. Whether the agency will provide transportation to infants during the first year of life.

### ADDITIONAL REQUIREMENTS

- The LPMD must include copies of your agency's version of the forms used for both programs if your agency chooses not to use ODJFS state-issued forms for these programs.
- For counties with mandatory enrollment in Managed Care Plans (MCP), explain the steps that have been taken to establish relationships with each of the MCPs. The following Healthchek and PRS information must be included:
  - a. Names of each MCP's contact person
  - b. All written agreements the agency has made with any of the MCPs related to Healthchek and PRS
  - c. Provisions for regularly scheduled meetings with MCPs
  - d. How data is obtained from MCP's to support outreach efforts, blood lead level follow ups, etc...
- The LPMD for the Healthchek and Pregnancy Related Services programs must be emailed to the Healthchek\_PRS mailbox **no later than October 15, 2005**. Once your county's LPMD is received electronically through the e-mailbox, you will be notified by e-mail if your LPMD is approved. Once your LPMD is approved, submit the final copy **signed by your agency's Director** to ODJFS/BCPS, County Compliance Section, by any of the following methods:
  - a. Scanned document (please use 'Microsoft Word') as an attachment to an email to the Healthchek\_PRS mailbox
  - b. Fax (614-728-9201)
  - c. Regular mail at: Ohio Department of Job and Family Services  
Bureau of Consumer and Program Support  
County Compliance Section  
30 E. Broad Street, 33rd Floor  
Columbus, OH 43215-3414
- After the LPMD is approved, all future changes or amendments to the CDJFS's LPMD shall be submitted to DJFS/BCPS, County Compliance Section, in writing under the signature of the CDJFS Director within 10 working days of the effective date of the change.
- A copy of the signed LPMD must be accessible at the CDJFS to ODJFS staff for compliance monitoring purposes.
- Failure to submit your LPMD by **October 15, 2005** will result in follow-up contact by the Bureau of Consumer and

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

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Program Support Compliance Section.

(Source: ODJFS LPMD emanual)

### In determining how the client ensures compliance, consider the following:

#### Control Objectives

To provide reasonable assurance that...

#### Control Environment

- Sense of conducting operations ethically, as evidence of a code of conduct or other verbal or written directive.
- Management's positive responsiveness to control recommendations.
- Management respects and adheres to program compliance requirements.
- Key manager possess adequate knowledge and experience to discharge their responsibilities.

#### Risk Assessment

- Program managers and staff understand and have identified key compliance objectives.
- Process established to implement changes in program objectives and procedures.

#### Control Activities

- Procedures in plane to identify changes in laws, regulations, and guidance affecting Federal awards.
- Policies and procedures in place to ensure compliance requirements are met.
- Personnel have adequate knowledge and experience to discharge responsibilities.

#### Information and Communication

- The system provides adequate source documentation.
- Record keeping system is established to ensure that documentation retained for the time period required by applicable requirements and appropriate records retention schedule.
- Information is accurate and accessible to those who need it.
- Established internal and external communication channels.
- Employee's duties and control responsibilities effectively communicated.

#### Monitoring

- Ongoing monitoring through supervisory and management reviews.
- Management meets with program monitors, auditors, and reviewers to evaluate program findings.
- Internal audit routinely test for compliance with Federal requirements.

#### What control procedures address the compliance requirement?

WP Ref.

What procedures does the County have in place over LPMD's?

What procedures does the County have in place to follow when changes occur (new staff, director, Managed Care Plan changes, etc) to insure LPMD updated thus making sure kids are accessing services intended.

What controls does the County JFS have to track County training/attendance of staff to keep abreast of changes/requirements?

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

WP Ref.

ODJFS Special Tests and Provisions - Suggested Audit Procedures – Compliance (Substantive Tests):

1. Determine if the County JFS is sharing JFS 3528 for EPSDT and PRS documentation with Managed Care Plans documentation.
2. Determine if the County is keeping record of training/attendance of staff to keep abreast of changes/requirements.

**N. Special Tests and Provisions – Local Program Management Description**

3. If the provider determined there is a high risk pregnancy and filed a JFS 3535, determine if the County JFS followed up with the recipient for such services. Documentation on informing (as specified in their plan – letters, tickler files, referrals, making appointments, case notes, assistance with other social services).

**Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)**

**A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)**

**B. Assessment of Control Risk:**

**C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:**

**D. Results of Compliance (Substantive Tests) Tests:**

**E. Questioned Costs: Actual \_\_\_\_\_ Projected \_\_\_\_\_**

\* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.