



Mary Taylor, CPA

Auditor of State

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

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

NAME OF CLIENT:	
YEAR ENDED:	2009

FEDERAL AWARD NAME:	Social Services Block Grant (Title XX)
CFDA#:	#93.667

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

Applicable Compliance Requirements ¹	
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B. Allowable Costs/Cost Principles	H. Period of Availability of Federal Funds
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E. Eligibility	M. Subrecipient Monitoring

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G. Matching, Level of Effort, Earmarking (n/a per ODJFS)	K. Real Property Acquisition and Relocation Assistance
I. Procurement and Suspension and Debarment	N. Special Tests and Provisions

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.

¹ 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.

² 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/ 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	
The opinion on this major program should be:	
Unqualified:	
Qualified (describe):	
Adverse (describe):	
Disclaimer (describe):	

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"> • Significant deficiencies in internal control over major programs • Material noncompliance with the laws, regulations, and provisions of contracts and grant agreements related to major programs • Known questioned costs greater than \$10,000 (and, for major programs, known questioned costs when likely questioned costs are greater than \$10,000) • Other types of findings (e.g., fraud) <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"> • If fraud or an illegal act, it must be inconsequential (regardless of whether the act related to a federal program or not) • If a violation of contract or grant agreement, it must be inconsequential (regardless of whether the act related to a federal program or not).

* 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

The purpose of the Social Services Block Grant (SSBG) program is to provide funds to States (including the District of Columbia and five territories) to provide services for individuals, families, and entire population groups in one or more of the following areas: (1) achieving or maintaining economic self-support and self-sufficiency to prevent, reduce, or eliminate dependency; (2) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests; (3) preserving, rehabilitating, or reuniting families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of intensive care; and (5) securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

II. Program Procedures

Administration and Services

The SSBG program is administered by the Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). Funds are awarded based on the State's population following receipt and review of the State's report on the proposed use of funds for the coming year, which serves as the State's plan. States have the flexibility to determine what services will be provided, consistent with the statutory goals and objectives, who is eligible, and how funds will be distributed among services and entities within the State, including whether to provide services directly or obtain them from other public or private agencies and individuals. The State must also conduct a public hearing on the proposed use and distribution of funds, as included in the report, as a prerequisite to the receipt of SSBG funds.

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

The SSBG program is authorized under Title XX of the Social Security Act, as amended, and is codified at 42 USC 1397 through 1397e. The implementing regulations for this and other block grant programs authorized by Omnibus Budget Reconciliation Act of 1981 are published at 45 CFR part 96. Those regulations include both specific requirements and general administrative requirements in lieu of 45 CFR part 92 (the HHS implementation of the A-102 Common Rule) for the covered block grant programs. Requirements specific to SSBG are in 45 CFR sections 96.70 through 96.74.

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, States are to use the fiscal policies that apply to their own funds in administering SSBG. Procedures must be adequate to assure the proper disbursement of and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (45 CFR section 96.30).

Under the block grant philosophy, each State is responsible for designing and implementing its own SSBG program, within very broad Federal guidelines. States must administer their SSBG program according to their approved plan and any amendments and in conformance with their own implementing rules and policies.

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.

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

INTRODUCTION

PART II – OTHER PROGRAM INFORMATION

I. Program overview:

This program is to provide services meeting the very broad Program Objectives noted in Part 1 of the Introduction.

ODJFS requires the counties to establish a plan for use of these monies. Counties also have the flexibility to determine what services will be provided, consistent with the statutory goals and objectives, who is eligible, and how funds will be distributed among services and entities within the County, including whether to provide services directly or obtain them from other public or private agencies and individuals. Under the block grant philosophy, each County is responsible for designing and implementing its own SSBG program, within very broad State/Federal guidelines. Counties must administer their SSBG program according to their approved plan and any amendments and in conformance with their own implementing rules and policies.

Counties use these monies for a variety of services. Auditors should review the County plan, determine if submitted to ODJFS and is within the program objectives. The County can amend its plan at any time. Auditors should use the plan(s) in place during their audit. These plans are not archived on the ODJFS website. Auditors should obtain these plans from their County JFS Fiscal Office.

The State's Comprehensive Title XX Social Services Plan is available at [http://emanuals.odjfs.state.oh.us/emanuals/GetDocument.do?nodeId=%23node-id\(211\)&docId=Document\(storage%3DREPOSITORY%2CdocID%3D%23node-id\(489694\)\)&locSource=input&docLoc=%24REP_ROOT%24%23node-id\(489694\)&version=8.0.0](http://emanuals.odjfs.state.oh.us/emanuals/GetDocument.do?nodeId=%23node-id(211)&docId=Document(storage%3DREPOSITORY%2CdocID%3D%23node-id(489694))&locSource=input&docLoc=%24REP_ROOT%24%23node-id(489694)&version=8.0.0).

Please note the OMB Compliance Supplement indicates this program is not subject to Circulars A102 or A87, however, ODJFS requires the Counties to use State cost principles, which require the counties to follow Circulars A102 and A87.

There are no matching requirements for this program. It is 100% federal monies. SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year, providing for a two year window. County claims for reimbursement to ODJFS are due 1 quarter prior to 2 years after the calendar quarter in which the County made the expenditure in order to be timely reported.

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

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

Additional information per meeting with ODJFS:

- Counties cannot adopt policies to broaden or restrict the program.
- 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 – not applicable for Social Services Block Grant.
 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.
 - Social Services Block grant receives a Federal social services allocation (OAC5101:9-6-12).
 - Allocations as part of the State wide allocation (referred to as pass through grants by ODJFS) – Medicaid, SCHIP, 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 pass-thru into CFIS as a budget.
 3. Income Maintenance (State Allocation) – not applicable for Social Services Block Grant.
- 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 (Adoption Assistance and Foster Care) 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.

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

- 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 02827 to the County Auditors records (see Reporting L section of this document).

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 – 7-1-09 to 6-30-11 Comprehensive Title XX Plan)

The OHIO DEPARTMENT OF JOB AND FAMILY SERVICES is the state agency under Ohio law responsible for the administration of the Title XX Social Services program. The department has the authority to plan, develop programs, and make rules and regulations pertaining to social services. The purpose of the program is to provide social services directed to enable residents of Ohio to restore, maintain or improve their capabilities for self-support, self-care, independent living and for strengthening family life.

Those services which each county elects to offer locally shall be directed to one or more of the following goals: (I) achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency; (II) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; (III) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests or preserving, rehabilitating, reuniting families; (IV) preventing or reducing inappropriate institutional care by providing for community-based care, home based care, or other forms of less intensive care; and (V) securing referral or admission for institutional care when other forms of care are not appropriate or providing services to individuals in institutions.

III. Program Funding

OAC 5101:9-6-12 Federal social services allocation. (eff. 8-8-08)

(A) The federal social services allocation reimburses the county for the federal share of the costs of social services, administration, and training.

(B) This allocation consists of federal funds under Title XX of the Social Security Act, 88 Stat. 2337 (1974), 42 U.S.C.A. 1397, as amended. The catalog of federal domestic assistance (CFDA) number for this allocation is 93.667.

(C) This allocation is issued for the state fiscal year (SFY), July first through June thirtieth. Expenditures in excess of the control amount may be the responsibility of the county.

(D) The following methodology is used to distribute federal Title XX funds for the social services group. All figures are based upon the most recently available U.S. bureau of census data.

(1) When the statewide allocation is the same as the preceding year, formula increases and decreases for the federal social service allocation are capped at four per cent of the preceding SFY's allocation amount. (2) When the statewide allocation is increased from the statewide allocation in the preceding year, the net gain is distributed to the county department of job and family services (CDJFS) by applying the formula listed in paragraph (D)(4) of this rule. (3) When the statewide allocation is decreased from the statewide allocation in the preceding year, the formula

in paragraph (D)(4) of this rule is applied to the amount of the net loss and proportionately deducted from the county's preceding SFY's allocation amount. (4) The formula for determining the increase or decrease in the statewide allocation from the preceding year is as follows: (a) Five per cent of the statewide allocation is distributed to the CDJFS based on each county's property tax wealth factors, as measured by the total of the most recent real estate, public utility, and tangible personal property tax values reported by the Ohio department of taxation and as inversely compared statewide. (b) The remaining amount of the allocation is distributed to the CDJFS using the following methodology:

(i) Fifty per cent is based on the county's population at or below one hundred fifty per cent of the federal poverty level as compared statewide in the same category. (ii) Twenty per cent is based on the county's population at or below eighteen years of age and at or below two hundred per cent of the federal poverty level as compared statewide in the corresponding categories. (iii) Twenty per cent is based on the county's population at or over fifty-five years of age and at or below the two hundred per cent of the federal poverty level as compared statewide in the corresponding categories. (iv) Ten per cent is based on the county's average unemployment rate as compared to the average unemployment rate for all eligible counties, utilizing figures from the Ohio department of job and family services (ODJFS) for the most recently available federal fiscal year (FFY).

(E) The following expenditures may be properly charged against this allocation and are contained in the "ODJFS Comprehensive Social Services Plan" :

(1) Purchase of approved social services costs as detailed in the county social services plan/profile; (2) Child care administration and direct delivery costs; (3) Social services operating expenditures in excess of the state operating allocation as detailed in rule 5101:9-6-10 of the Administrative Code.; and, (4) Title XX eligible temporary assistance for needy families (TANF) or adult protective services (APS) expenditures, which are included in the county social services plan/profile, in excess of the TANF or any approved APS allocation as detailed in rule 5101:9-6-08 of the Administrative Code.

(F) County agency expenditures must be reported on the JFS 02827 "Monthly Financial Statement" as contained in rule 5101:9-7-29 of the Administrative Code. Contract or vendor agreement purchased service expenditures must be liquidated and reported on the JFS 02827 as actual expenditures no later than three months after the last day of the SFY allocation period.

(G) Redistribution is pursuant to rule 5101:9-6-02 of the Administrative Code. The following steps are taken to recognize excess expenditures.

(1) The county agency will apply social services draws and expenditures in excess of the state operating allocation to this allocation. (2) The county agency will apply Title XX TANF eligible APS expenditures, which are included in the county social services plan/profile, in excess of the TANF or any approved APS allocation to this allocation. (3) Any excess expenditures remaining are the responsibility of the county agency.

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

IV. Reporting in the Schedule of Expenditures of Federal Awards & Other Information

The County federal schedule will report administrative and other expenditures (whether charged directly to the program or allocated through a cost allocation plan 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 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 #93.667. 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: 93.667
- Grant Title: Social Services Block Grant
- 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 SSBG ARRA money for 2009. However, if auditors note the County JFS office did receive SSBG ARRA monies they should include testing for these transactions in accordance with the grant agreement and ARRA requirements.

Per the 2009 OMB Compliance Supplement:

OTHER INFORMATION

Transfers out of SSBG

As discussed in III.A, "Activities Allowed or Unallowed," funds may be transferred out of SSBG to other Federal programs. The amounts transferred out of SSBG are subject to the requirements of the program into which they are transferred and should not be included in the audit universe and total expenditures of SSBG when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amount transferred out should not be shown as SSBG expenditures but should be shown as expenditures for the program into which they are transferred.

Transfers into SSBG

A State may transfer up to 10 percent of the combined total of the State family assistance grant, supplemental grant for population increases, and bonus funds for high performance and illegitimacy reduction, if any, (all part of TANF) for a given fiscal year to carry out programs under the SSBG. Such amounts may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level. The amount of the transfers is reflected on the quarterly ACF-196, *Temporary Assistance for Needy Families (TANF) Financial Report*. The amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

AOS Note: Per ODJFS, these transfers are made at the State level only. However, if the State does change the County's allocation due to a transfer, such as TANF from Title XX, the expenditures made from these monies are subject to TANF guidelines.

V. AOS Testing Considerations

Since each County could conceivably have a different plan with varying eligibility requirements, services offered, etc., there is no effective way to incorporate testing for all Counties in this FACCR. In addition, Counties can amend their plan at will be amended at will. Auditors will need to tailor this FACCR in accordance to the plan(s) in effect during their audit.

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

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):

Reported on:	Program:	County Fund Paid from:	RMS Cost Pool
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)

In addition, as noted in Section E, in some cases, the county may choose to supplement other program activities with funding from this program. If that is the case, eligibility testing may be done in conjunction with the other program(s).

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

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, SCHIP, 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.
- 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 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.

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 30th for subsequent years. This also includes the manual controls tested by the financial auditors.

- As noted above, County JFS fiscal offices use QUIc+ 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).

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

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. Services provided with SSBG funds may include, but are not limited to, child care services, protective services for children and adults, services for children and adults in foster care, services related to the management and maintenance of the home, day care services for adults, transportation services, family planning services, training and related services, employment services, information, referral, counseling services, the preparation and delivery of meals, health support services, and appropriate combinations of services designed to meet the special needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, and alcoholics and drug addicts (42 USC 1397a(a)). Uniform definitions for these services are included in Appendix A to 45 CFR part 96 - Uniform Definitions of Services.
Expenditures for these services may include expenditures for administration, including planning and evaluation, personnel training and retraining directly related to the provision of those services (including both short- and long-term training at educational institutions), and conferences and workshops, and assistance to individuals participating in such activities (42 USC 1397a(a)).
- 2. A State may purchase technical assistance from public or private entities if the State determines that such assistance is required in developing, implementing, or administering the SSBG program (42 USC 1397a(e)).
- 3. A State may transfer up to 10 percent of its annual allotment to the following block grants for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities: Preventive Health and Health Services Block Grant (CFDA 93.991); Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959); Maternal and Child Health Services Block Grant to the States (CFDA 93.994); Low-Income Home Energy Assistance (CFDA 93.568); and Community Services Block Grant (93.569) (42 USC 1397a(d); 45 CFR section 96.72).
- 4. In Fiscal Year (FY) 2006, a one-time SSBG allotment was made available to each State to support social services as under the regular SSBG program, as well as health and mental health services, and facility repair and construction for the populations and areas affected by the 2005 Gulf Coast hurricanes (Pub. L. No. 109-148). (See III.H, "Period of Availability of Federal Funds.")
- 5. In FY 2009, an additional amount of funding was made available to those States (a) for which the President declared a major disaster during 2008 and (b) previously receiving a declaration for Hurricanes Katrina and Rita. That funding is available to support services as under the regular SSBG program, as well as health and mental health services, and for repair and construction of health care facilities (including mental health facilities), child care centers, and other social service facilities (Pub. L. No 110-329, Chapter 7).
- 6. Funds may not be used for:
 - a. Except as provided in III.A.4 and 5, above, purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any facility (unless the

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

A. Activities Allowed or Unallowed

- restriction is waived by ACF) (42 USC 1397(d)(a)(1)).
- b. Cash payments for costs of subsistence or for the provision of room and board (other than costs of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary shelter provided as a protective service) (42 USC 1397(d)(a)(2)).
 - c. Wages of any individual as a social service (other than payment of wages of Temporary Assistance for Needy Families (TANF) (CFDA 93.558) recipients employed in the provision of child day care services) (42 USC 1397(d)(a)(3)).
 - d. Medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug-dependent individual) unless it is an integral but subordinate part of an allowable social service under SSBG (unless the restriction is waived by ACF) (42 USC 1397(d)(a)(4)).
 - e. Social services (except services to an alcoholic or drug-dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution (42 USC 1397(d)(a)(5)).
 - f. The provision of any educational service that the State makes generally available to its residents without cost and without regard to their income (42 USC 1397(d)(a)(6)).
 - g. Any child day care services unless such services meet applicable standards of State and local law (42 USC 1397(d)(a)(7)).
 - h. The provision of cash payments as a service (this limitation does not apply to payments to individuals with respect to training or attendance at conferences or workshops) (42 USC 1397(d)(a)(8)).
 - i. Any item or service (other than an emergency item of service) furnished by an entity, physician, or other individual during the period of exclusion from reimbursement by various provisions of Federal regulations (42 USC 1397(d)(a)(9)).

(Source: 2009 OMB Compliance Supplement)

Compliance Requirements - Program Specific Requirements

As noted in the introduction, counties must develop a plan which documents their program. Each audit team must obtain and review the county's plan for this program to determine what types of expenditures would be allowed/unallowed for the program at the county level.

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 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.

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

A. Activities Allowed or Unallowed

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 could also affect Section B.

County testing will primarily consist of the following:

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

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**Allowable costs on FTE Report associated with Employees**

Reported on:	Program:	County Fund Paid from:	RMS Cost Pool
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.

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.
- Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed under Federal awards.

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

A. Activities Allowed or Unallowed	
<p>Monitoring</p> <ul style="list-style-type: none"> • Management reviews supporting documentation of allowable/unallowable activities. • Flow of information from Federal or State agency to appropriate management personnel. • Comparisons made with budget and expectations of allowable costs. • Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed. 	
What control procedures address the compliance requirement?	WP Ref.
<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>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"> • Employees are properly completing the RMS form; • RMS forms are distributed in a timely manner; • All RMS forms are accounted for and reference documentation to support the program and activity claimed; • Forms for absent employees are properly completed; and • Data from the RMS entered into the QUIc+ system matches the data on the RMS forms. <p>For combine agencies, how does the County ensure that:</p> <ul style="list-style-type: none"> • FTE allocations for the shared cost pool are correct; • Employees are assigned to the correct cost pool; and • Employees are completing the correct RMS form. <p>Direct Expenditures</p> <p>Identify and document the control procedures which address the direct expenditures disbursed at the county level.</p> <p>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.</p>	
Suggested Audit Procedures – Compliance (Substantive Tests) (See also Section B procedures)	WP Ref.
<p><u>Reminder: Auditors should gain efficiencies by testing in conjunction with other programs with the same requirements for CAP, FTE and RMS.</u></p> <p>Direct Costs</p> <ol style="list-style-type: none"> 1) Identify (and document) the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. 2) When allowability is determined based upon summary level data (voucher summaries, etc.) or individual transactions, perform procedures to verify that: <ol style="list-style-type: none"> a) Activities were allowable. b) If individual transactions were properly classified and accumulated into the activity total. 	

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

A. Activities Allowed or Unallowed

c) Other Attributes:

- A. Charges were properly coded.
- B. Voucher was properly computed.
- C. Invoice amount agrees to voucher.
- D. Invoice date precedes voucher date.
- E. If a reimbursement, reimbursement was not claimed greater than 21 months following the payment of the expenditure.

- 3) The auditor should be alert for large transfers of funds from program accounts, which may have been used to fund unallowable activities.
- 4) 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.
- 5) 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"> 2. Activity code 3. Initials 4. Case number c. Prepare a narrative of job duties from observation and / or interview with employee d. Match job activities from RMS with job descriptions in personnel file e. If employee is an administrative or supervisory, determine whether they are appropriately completing the RMS forms <ul style="list-style-type: none"> i. Administrative support employees can participate in RMS if they provide direct services ii. Supervisory employees can participate in RMS if they provide direct services over 50% of the time <p>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).</p> <ul style="list-style-type: none"> a) Determine if the required number of observations were performed b) Pull a representative sample for each population identified as funded codes (not 997-999). <ul style="list-style-type: none"> i. Trace information on the RMS Reference List matches the original RMS form 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. <p>Note: The last two columns of the county RMS Reference List includes the program and activity codes.</p> <p>Reminder: 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>If Sections A & 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.</p>	
<p>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</p>	
<p>B. Assessment of Control Risk:</p>	
<p>C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:</p>	
<p>D. Results of Compliance (Substantive Tests) Tests:</p>	
<p>E. Questioned Costs: Actual _____ Projected _____</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****Per the 2009 OMB Compliance Supplement:**

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, SSBG is exempt from the provisions of the OMB cost principles circulars. State cost principles requirements apply to SSBG.

As noted in Part II of the Introduction, the OMB Compliance Supplement indicates this program is not subject to Circulars A102 or A87, however, ODJFS requires the Counties to use State cost principles, which require the counties to follow Circulars A102 and A87.

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 – This may be applicable to public assistance programs at the local level

- 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

B. Allowable Costs / Cost Principles

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 – General

The following OMB cost principles circulars prescribe the cost accounting policies associated with the administration of Federal awards by (1) States, local governments, and Indian tribal governments (State rules for expenditures of State funds apply for block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and for other programs specified on Appendix I); (2) institutions of higher education; and (3) non-profit organizations. Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from OMB's cost principles circulars, but are subject to requirements promulgated by the sponsoring Federal agencies (e.g., the Department of Health and Human Services' 45 CFR part 74, appendix E). The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government, or indirectly through a pass-through entity. The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates (e.g., methodologies used to recover facilities and administrative costs (F&A) at institutions of higher education). Federal awards include Federal programs and cost-type contracts and may be in the form of grants, contracts, and other agreements.

The three cost principles circulars are as follows:

- **OMB Circular A-87, “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.

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

B. Allowable Costs / Cost Principles

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

Introduction

OBM 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

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,

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

B. Allowable Costs / Cost Principles

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 cost.
- g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in 2 CFR 225.³
- 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 IRCPS are based on the most current financial data and are used to either establish predetermined, fixed, or provisional indirect cost rates or to finalize provisional rates (for rate definitions refer to 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):

³ 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

- (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.

- *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

⁴ 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).

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

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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 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 cognizant⁴ 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

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

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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 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

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

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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 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.

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

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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.

(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;
 - (iii) 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

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\$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.

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

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

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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 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, you 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, (Eff.1-30-09)

(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

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

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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 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

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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 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.

B. Allowable Costs / Cost Principles

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 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

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

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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, 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.

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

B. Allowable Costs / Cost Principles	
<ul style="list-style-type: none"> • 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. <p>Information and Communication</p> <ul style="list-style-type: none"> • 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. • Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed under Federal awards. <p>Monitoring</p> <ul style="list-style-type: none"> • Management reviews supporting documentation of allowable/unallowable activities. • Flow of information from Federal or State agency to appropriate management personnel. • Comparisons made with budget and expectations of allowable costs. <p>Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.</p>	
What control procedures address the compliance requirement?	WP Ref.
What control procedures does the County JFS have in place to ensure only allowable costs are charged to the grant?	
See also Section A for additional procedures.	
Suggested Audit Procedures – Compliance (Substantive Tests) (see also testing procedures in Section A)	WP Ref.
General	
<p>The following procedures apply to direct 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 indirect 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>	
<p>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.)</p>	
<p>2) Select a representative number of transactions (Direct, CAPs, and indirect cost pools) and inspect</p>	

⁵ 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. Allowable Costs / Cost Principles

- documentation that supports that the charges are in conformance with the following criteria (contained in the "Basic Guidelines" section of 2 CFR 225):
- a) Authorized or not prohibited under state or local laws or regulations
 - b) Approved by the federal awarding agency (including pass-through agency), if required.
 - c) Conform with the allowability of costs provisions of OMB cost principles 2 CFR 225, or limitations in the program agreement or regulations.
 - d) Conform with the allocability provisions of 2 CFR 225 (paragraph C3).
 - e) Represent charges for actual costs, not budgeted or projected amounts.
 - 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.
 - g) Applied uniformly to federal and non-federal activities.
 - 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.
 - 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.
 - j) Not included as a cost or used to meet cost sharing requirements of other federally-supported activities of the current or prior period.
 - k) Net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rental income, trade-ins, and scrap sales.
 - 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.
 - 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 225.⁵ Documentation may be in an electronic form.
- 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.)
- 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.

5) State/Local Department or Agency Costs – For State/Local Department or Agency ICRPs

- a. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. If the local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.
- b. *General Audit Procedures (Direct and Indirect Costs)* - The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs from Federal awards.

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

B. Allowable Costs / Cost Principles

- (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 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.

B. Allowable Costs / Cost Principles	
<p>(C) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).</p> <p>(iii) <i>Other Procedures</i></p> <p>(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.)</p> <p>(B) For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.</p> <p>(3) <i>Testing of Charges Based Upon the ICRA</i> – Perform the following procedures to test the application of charges to Federal awards based upon an ICRA:</p> <p>(a) Obtain and read the current ICRA and determine the terms in effect.</p> <p>(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).</p> <p>(4) <i>Other Procedures – No Negotiated ICRA</i></p> <p>(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.</p> <p>(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.</p>	
<p>6) State/Local-Wide Central Service Costs</p> <p>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.</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.</p> <p>(1) In reviewing the State/local-wide central service costs, the auditor may not need to test all</p>	

⁶ 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)).

⁷ 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.

B. Allowable Costs / Cost Principles

central service costs (allocated or billed) every year; for example, the auditor in obtaining sufficient evidence for the opinion may consider testing each central service at least every 5 years, and perform additional testing for central services with operating budgets of \$5 million or more.

- (2) If the local governmental entity is not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.

b. *General Audit Procedures for State/Local-Wide Central Service CAPs* - The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.

- (1) Test a sample of transactions for conformance with:

- (a) The criteria contained in the "Basic Guidelines" section of 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.

B. Allowable Costs / Cost Principles

- (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)⁶ 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 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 benefits⁷), 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)⁵ 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.

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

B. Allowable Costs / Cost Principles

(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 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

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

B. Allowable Costs / Cost Principles

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.
- (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)

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

B. Allowable Costs / Cost Principles

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 required 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.

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

**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.

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.

Selected Items of Cost Exhibit 1	
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 and 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

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

Interest - substantial relocation	Not specifically addressed
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 Requirement – Program Specific 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?maxChildrenInLevel=100&nodeId=%23node-id%28407%29>.

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.	
<p>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.</p>	
In determining how the client ensures compliance, consider the following:	
<p>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.</p>	
<p>Control Environment</p> <ul style="list-style-type: none"> • Appropriate assignment of responsibility for approval of cash drawdowns and payments to subrecipients. • Budgets for drawdowns are consistent with realistic cash needs. 	
<p>Risk Assessment</p> <ul style="list-style-type: none"> • 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. 	
<p>Control Activities</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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. 	
<p>Information and Communication</p> <ul style="list-style-type: none"> • 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. 	
<p>Monitoring</p> <ul style="list-style-type: none"> • 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.
<p>What control does the County have to limit cash draws from ODJFS to the minimum amount needed for actual, immediate requirements?</p> <p>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?</p>	
Suggested Audit Procedures – Compliance (Substantive Tests)	WP Ref.
<p>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.</p> <p><i>States and Other Recipients</i></p>	

* 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.

D. Davis-Bacon Act
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.

E. Eligibility

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 eligibility determinations were made, (including obtaining any required documentation/verifications), that individual program participants or groups of participants (including area of service delivery) were determined to be eligible, and that only eligible individuals or groups of individuals (including areas of service delivery) participated in the program.
- 3) Determine whether subawards were made only to eligible subrecipients.
- 4) Determine whether amounts provided to or on behalf of eligible individuals were calculated in accordance with program requirements.

Compliance Requirements – Program Specific Requirements

There are no OMB Compliance Supplement requirements specifically applicable to this program.

Per ODJFS, there is no federal or state criterion for determining eligibility for Title XX recipients. Each County prepares and submits to ODJFS a profile outlining services provided as well as eligibility requirements for Title XX recipients. The County's profile is included in the 08-09 State Plan, the next biennium State plan will not have the county profile's listed, the profiles will be maintained in the State/County files.

The ODJFS Title XX plan can be accessed at <http://emanuals.odjfs.state.oh.us/emanuals>.

Auditors should note the County amends their profile at any time. Accessing the current ODJFS Title XX plan may not contain the profile in effect during your audit period. Auditors may need to obtain the profile for their audit period from the County JFS office.

Auditors should insert here eligibility requirements for their respective counties from the County's profile.

An application must be submitted/signed by the consumer in need of the service. An individual service plan is required to provide any service defined as a Title XX service per rule OAC 5101:2-25-01. Protective service cases require a case record that documents the circumstances of actual or potential abuse, neglect, or exploitation of the adult or child. The intent is to provide service on an individual basis based on a specific need.

NOTE: In some cases, the county may choose to supplement other program activities with funding from this program. If that is the case, eligibility testing may be done in conjunction with the other program(s).

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

Control Objectives

To provide reasonable assurance that only eligible individual and organizations receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible individuals were calculated in accordance with program requirements.

Control Environment

- Staff size and competence provides for proper making of eligibility determinations.
- Realistic caseload/performance targets established for eligibility determinations.
- Lines of authority clear for determining eligibility.

Risk Assessment

- Identification of risk that eligibility information prepared internally or received from external sources could be incorrect.
- Conflict-of-interest statements are maintained for individuals who determine eligibility.
- Process for assessing risks resulting from changes to eligibility determination systems.

Control Activities

- Written policies provide direction for making and documenting eligibility determinations.
- Procedures to calculate eligibility amounts consistent with program requirements.

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

E. Eligibility	
<ul style="list-style-type: none"> • Eligibility objectives and procedures clearly communicated to employees. • Authorized signatures (manual or electronic) on eligibility documents periodically reviewed. • Access to eligibility records limited to appropriate persons. • Manual criteria checklists or automated process used in making eligibility determinations. • Process for periodic eligibility re-determinations in accordance with program requirements. • Verification of accuracy of information used in eligibility determinations. • Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements. <p>Information and Communication</p> <ul style="list-style-type: none"> • Information system meets needs of eligibility decision-makers and program management. • Processing of eligibility information subject to edit checks and balancing procedures. • Training programs inform employees of eligibility requirements. • Channels of communication exist for people to report suspected eligibility improprieties. • Management receptive to suggestions to strengthen eligibility determination process. • Documentation of eligibility determinations in accordance with program requirements. <p>Monitoring</p> <ul style="list-style-type: none"> • Periodic analytical reviews of eligibility determinations performed by management. • Program quality control procedures performed. • Periodic audits of detailed transactions. 	
What control procedures address the compliance requirement?	WP Ref.
<p>Identify and document below the control procedures in place at the county over eligibility determinations for the Social Services Block Grant Program.</p> <p>ODJFS indicates Bureau of Monitoring and Consulting Service’s compliance measures should be utilized. The ODJFS Guided Self-Assessment (GSA) requests County JFS offices to provide controls over subrecipient monitoring and gives guidance to the County JFS. Auditors should review the information provided by the County JFS for this assessment to help gain an understanding of the procedures in place.</p>	
Suggested Audit Procedures – Compliance (Substantive Tests)	WP Ref.
<p>All control <u>eligibility</u> tests with missing files must also be selected for substantive testing to determine if recipient was eligible. If we cannot determine the person’s receiving benefits were eligible either within the system or from the case file than all monies paid to the recipient for FY 2009 must be questioned.</p> <ol style="list-style-type: none"> 1. Obtain and evaluate the County plan, as well as written policies and procedures pertaining to the Social Services Block Grant Program (SSBG). 2. Based on the results of the test of controls, select case files and determine whether payments were made to eligible recipients. The sample selected for testing Types of Services Allowed or Unallowed (Compliance Requirement A) may be used for this test, if appropriate. (Include specific eligibility requirements for your county, as necessary). <p style="background-color: yellow;">Auditors should review County profile to determine procedures for testing eligibility if this is applicable. Below are suggestions however, steps from the County profile may be such that these procedures would not be applicable.</p> <ol style="list-style-type: none"> 1) <i>Eligibility for Individuals</i> <ol style="list-style-type: none"> a) The County may use a computer or manual system for processing individual eligibility determinations and delivery of benefits. (Often these computer systems are complex and will be separate from the County’s regular financial accounting system.) Typical functions performed for eligibility are: <ol style="list-style-type: none"> (1) Perform calculations to assist in determining who is eligible and the amount of benefits. (2) Payment of benefits (e.g., write checks). (3) Maintain eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments). (4) Track the period of time an individual is eligible and stop benefits at the end of a 	

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

E. Eligibility

predetermined period unless, there is a redetermination of eligibility.

(5) Perform matches with other computer databases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased).

(6) Control who is authorized to approve benefits for eligible individuals (e.g., an employee may be approving benefits on-line and this process may be controlled by passwords or other access controls).

(7) Produce exception reports indicating likely errors that need follow-up (e.g., when benefits exceed a certain amount, would not be appropriate for a particular classification of individuals, or are paid more frequently than normal).

(8) Because of the diversity of computer systems, both hardware and software, it is not practical for this program to provide suggested audit procedures to address each system. However, generally accepted auditing standards provide guidance for the auditor when computer processing relates to accounting information that can materially affect the financial statements being audited. Similarly, when eligibility is material to a major program, and a computer system is integral to eligibility compliance, the auditor should follow this guidance and consider the non-Federal entity's computer processing. The auditor should perform audit procedures relative to the computer system for eligibility as necessary to support the opinion on compliance for the major program. Due to the nature and controls of computer systems, the auditor may choose to perform these tests of the computer systems as part of testing the internal controls for eligibility.

d) Select a representative number of individuals receiving benefits and perform tests to ascertain if:

(1) The required eligibility determinations and redeterminations, (including obtaining any required documentation/verifications) were performed and the individual was determined to be eligible. Specific individuals were eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both. Also, some programs require periodic redeterminations of eligibility, which should also be tested.)

(2) Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.

(3) Benefits were discontinued when the period of eligibility expired.

e) In some programs, the County may use a quality control process to obtain assurances about eligibility. Review the quality control process and perform tests to ascertain if it is operating to effectively meet the objectives of the process and in compliance with applicable program requirements.

2) *Eligibility for Group of Individuals or Area of Service Delivery* – Auditors should review County profile to determine if this is applicable. Services for free & Services for a fee. Only those service to which fees are applicable are counted in determining the amount of the fee. Therefore, services available to consumers without regard to income would not be counted.

3) *Eligibility for Subrecipients* – Auditors should review County profile to determine if this is applicable.

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.

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

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

G. Matching, Level of Effort, Earmarking

OMB Compliance Supplement indicates Matching and Level of Effort are not applicable. It does indicate Earmarking is applicable, however, this is a State requirement.

Per ODJFS, there are no OMB Requirements at the County level.

* 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 periods 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.

Compliance Requirement – Program Specific Requirements

Per the 2009 OMB Compliance Supplement:

SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year (42 USC1397a(c)). However, the funds made available under the additional FY 2006 allotment (Pub. L. No. 109-148) expire on September 30, 2009 (Pub. L. No. 110-28, Section 4702).

Per ODJFS:

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.

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

H. Period of Availability of Federal Funds

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 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)

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 period of availability for testing.

H. Period of Availability of Federal Funds	
In determining how the client ensures compliance, consider the following:	
<p>Control Objectives To provide reasonable assurance that federal funds are used only during the authorized period of availability.</p> <p>Control Environment</p> <ul style="list-style-type: none"> • Management understands and is committed to complying with period of availability requirements. • Entity's operations are such that it is unlikely there will be Federal funds remaining at the end of the period of availability. <p>Risk Assessment</p> <ul style="list-style-type: none"> • The budgetary process considers period of availability of Federal funds as to both obligation and disbursement. • Identification and communication of period of availability cut-off requirements as to both obligation and disbursement. <p>Control Activities</p> <ul style="list-style-type: none"> • Accounting system prevents obligation or expenditure of Federal funds outside of the period of availability. • Review of disbursements by person knowledgeable of period of availability of funds. • 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. • Cancellation of unliquidated commitments at the end of the period of availability. <p>Information and Communication</p> <ul style="list-style-type: none"> • Timely communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines. • Periodic reporting of unliquidated balances to appropriate levels of management and follow-up. <p>Monitoring</p> <ul style="list-style-type: none"> • Periodic review of expenditures before and after cut-off date to ensure compliance with period of availability requirements. • Review by management of reports showing budget and actual for period. 	
What control procedures address the compliance requirement?	WP Ref.
<p>What procedures does the County JFS have in place to report expenditures within the fiscal year allotted or in the succeeding fiscal year?</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 availability period?</p>	
Suggested Audit Procedures – Compliance (Substantive Tests)	WP Ref.
<ol style="list-style-type: none"> 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. 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. 3) Select a representative number of adjustments to the Federal funds and verify that the adjustments were for transactions that occurred during the period of availability. 	
Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)	
<p>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</p> <p>B. Assessment of Control Risk:</p>	

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

H. Period of Availability of Federal Funds

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

OMB requirements do not apply to Social Services Block Grant.

Per OAC 5101:9-4-07 The only federal funding source excluded from the requirements of this chapter is Title XX social services block grant (SSBG).

J. Program Income
The OMB Compliance Supplement indicates Section J is not applicable to this program.

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

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

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

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

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

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. Please note AOS only included Social Services Block Grant specific requirements. If auditors need additional information on reporting county collections, they should review the entire OAC requirement.

OAC 5101:9-7-06 Reporting County Collections (Eff. 8-8-08)

- 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.

Note: The reporting requirement for Medicaid is in (1)(d) as follows:

- 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:

L. Reporting

- 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;
 - (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.

(Source: ODJFS)

County Level Requirements per ODJFS

1. **ODJFS 2827**

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:

- a. The County JFS director must certify the accuracy and amount of disbursements in Section C.
- b. Per the Administrative Procedure Manual (APM) Section 7902, the ODJFS 02827 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 20th of the month following the expenditure month.

The Counties are also required to include cash or benefit overpayments on JFS 02827. Counties retain benefit recoveries monies (incentive monies) and report quarterly on the JFS 02827 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 sliding scale fees for such things as elder care (check applicable county plan). If the County does accept monies, they should have established fee collection procedures. Counties enter these monies into Quic+ / CFIS and like recoveries, report quarterly on the JFS 02827 and offset future draws from ODJFS.

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:

Medicaid CHIP / SCHIP Food Assistance / SNAP TANF Child Care Cluster Social Service Block Grant
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2. **ODJFS 04282**

Title XX Social Services Block Grant Summary of Direct Services Provided and Purchased Services Contracts & Agreements - The JFS 04282 captures data for individuals receiving public or private services funded in whole or in part with SSBG Funds. Direct services provided and purchased services contracts and agreements are no longer separated. The form has been revised to match current Federal filing requirements. **Per the Administrative Procedure Manual Section 5501 the reporting requirements have changed from monthly to quarterly. Only recipient Data is reported. The 04282 reports are to be submitted to the ODJFS Bureau of Federal Financial Reporting no later than 45 calendar days following the end of the quarter.** Counties must submit a report even if SSBG direct services were not provided and/or purchased services

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

L. Reporting

expenditures were not made during the quarter.

3. ODJFS 02713

County JFS submits this report if they have retroactive coding adjustment requests. Per ODJFS, The 2713 may be made obsolete with the revision of 5101:9-7-03 and adjustments will be completed by the county. Auditors should review this code for applicability.

4. Grant Reconciliation Report

The County should be reviewing the grant reconciliation report and responding to ODJFS.

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

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.

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.

Control Environment

- Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.
- Management’s attitude toward reporting promotes accurate and fair presentation.
- Appropriate assignment of responsibility and delegation of authority for reporting decisions.

Risk Assessment

- 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.
- Identification of underlying source data or analysis for performance or special reporting that may not be reliable.

Control Activities

- Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.
- Tracking system which reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.
- The required accounting method is used (e.g., cash or accrual).

Information and Communication

- An accounting or information system that provides for the reliable processing of financial and performance information for Federal awards.

Monitoring

- Communications from external parties corroborate information included in the reports for Federal awards.
- Periodic comparison of reports to supporting records.

What control procedures address the compliance requirement?	WP Ref.
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<p>Identify and document the control procedures addressing each of the ODJFS reports.</p> <p><u>Control procedures may include, but are not limited to:</u></p> <ul style="list-style-type: none"> • The report was reviewed and approved by the appropriate personnel to ensure accuracy and completeness. 	
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* Cross-reference to the working papers where the tests of controls or compliance tests have been performed.

L. Reporting	
Suggested Audit Procedures – Compliance (Substantive Tests)	WP Ref.
<p><u>ODJFS 2827:</u> Based on the results of the test of controls, select monthly ODJFS Form 2827 reports in the audit period. Review reports to determine if:</p> <ul style="list-style-type: none"> — It was submitted to ODJFS in a timely manner (Report is due by the 20th of the month following the expenditure month). Note: Inquire if reports are being electronically submitted. If submitted electronically, the electronic submission date is an acceptable date. — It is mathematically accurate; recalculate amounts as necessary. — All amounts reported are traceable to appropriate supporting documentation and appear to be code properly. — All amounts reported agree to the Quarterly CFIS reconciliation from ODJFS. — All amounts reported agree to the County Auditors records. — Form 2827 was signed by County Auditor and County JFS Director <p><u>ODJFS 4282:</u> Based on the results of the test of controls, select quarterly ODJFS 4282 report submitted in the audit period. Review report to determine if:</p> <ul style="list-style-type: none"> — It was submitted to ODJFS in a timely manner (Report is due 45 days after the end of the quarter). Note: Inquire if reports are being electronically submitted. If submitted electronically, the electronic submission date is an acceptable date. — It is mathematically accurate, if applicable. — All amounts and other significant information reported are traceable to appropriate supporting documentation. <p><u>ODJFS 2713:</u> Based on the results of the test of controls, select ODJFS 2713 reports submitted in the audit period. Review reports to determine if:</p> <ul style="list-style-type: none"> — It was submitted to ODJFS in a timely manner. — It is mathematically accurate, if applicable. — All amounts and other significant information reported are traceable to appropriate supporting documentation. <p><u>Grant Reconciliation Report</u> Determine if the County JFS reviewed the grant reconciliation report and responded to ODJFS.</p> <p><u>Other</u> 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.</p>	
Audit Implications (adequacy of the system and controls, and the effect on sample size, reportable conditions / material weaknesses, and management letter comments)	
<p>A. Results of Test of Controls: (including material weaknesses, reportable conditions and management letter items)</p> <p>B. Assessment of Control Risk:</p> <p>C. Effect on the Nature, Timing, and Extent of Compliance (Substantive Test) including Sample Size:</p> <p>D. Results of Compliance (Substantive Tests) Tests:</p> <p>E. Questioned Costs: Actual _____ Projected _____</p>	

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

L. Reporting

* 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 Requirement - Program Specific Requirements

Each county can choose how they would like to use these funds. The projects which are to be funded by the Social Services Block Grant must be documented in a plan developed by each county. As a result, each county audit team must obtain and review the county's plan for this program and inquire with County Management to determine if disbursements were made to subrecipients during the audit period.

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 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> .

ODJFS has provided the following mandated process for subrecipient monitoring.

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

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

M. Subrecipient Monitoring

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 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.

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(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 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

M. Subrecipient Monitoring

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 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.

M. Subrecipient Monitoring

- 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 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.

What control procedures address the compliance requirement?

WP Ref.

Some counties have elected to contract with outside parties to provide services for SSBG recipients. Each county audit team must inquire with county management to determine if disbursements were made to subrecipients during the audit period. In some cases, the County JFS has allowed the subrecipients to determine eligibility for services. As such, the County JFS should stipulate within each contract the eligibility criteria. Furthermore, the County JFS should monitor the subrecipients to ensure eligibility is properly determined and services are provided only to eligible recipients.

Discuss subrecipient monitoring with the county's staff to gain an understanding of the scope of

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

M. Subrecipient Monitoring	
<p>monitoring activities, including the number, size, and complexity of awards to subrecipients during the audit period. If program funds were disbursed to subrecipients at your County, identify and document below control procedures over the County's monitoring of subrecipient activities, ensuring program compliance is achieved, ensuring required audits and on-site reviews are performed, requiring appropriate corrective action on monitoring and audit findings, and evaluating the impact of subrecipient activities.</p> <p>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.</p>	
Suggested Audit Procedures – Compliance (Substantive Tests)	
<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), Eligibility (tests that subawards were made only to eligible 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"> 1) Gain an understanding of the pass-through entity's subrecipient procedures through a review of the pass-through entity's subrecipient monitoring policies and procedures (e.g., annual monitoring plan) 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. 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. 3) Review the pass-through entity's documentation of during-the-award monitoring 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. 4) Review the pass-through entity's follow-up to ensure corrective action on deficiencies noted in during-the-award monitoring. 5) Verify that the pass-through entity: <ol style="list-style-type: none"> 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 http://harvester.census.gov/sac) 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. b) Issued management decisions on audit findings within 6 months after receipt of the subrecipient's audit report. c) Ensured that subrecipients took appropriate and timely corrective action on all audit findings. 6) Verify that in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions. 	WP Ref.

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

M. Subrecipient Monitoring	
7) Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity's records.	
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.	
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.

N. Special Tests and Provisions
The OMB Compliance Supplement indicates Section N is not applicable to this program.

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